

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

GOODHUE COUNTY
RED WING, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**GOODHUE COUNTY
RED WING, MINNESOTA**

Year Ended December 31, 2004



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

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**GOODHUE COUNTY
RED WING, MINNESOTA**

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**GOODHUE COUNTY
RED WING, MINNESOTA**

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**GOODHUE COUNTY
RED WING, MINNESOTA**

ORGANIZATION

				<u>Term Expires</u>
Elected				
Commissioners				
Chair	Robert Noah	District 3		January 2007
Vice Chair	Roseanne Grosso	District 1		January 2005
Board Member	Richard Samuelson	District 2		January 2005
Board Member	Jim Bryant	District 4		January 2007
Board Member	Ted Seifert	District 5		January 2005
Attorney	Steven Betcher			January 2007
Auditor-Treasurer-Assessor	Bradford Johnson			January 2007
County Recorder	Jeanne Dankers			May 2005
County Sheriff	Dean Albers			January 2007
Appointed				
Administrator	David Hamilton			Indefinite
Building Official	Doug Morem			Indefinite
County Engineer	Greg Isakson			Indefinite
Court Administrator	Yvonne Black			Indefinite
Court Services Director	Joanne Pohl			Indefinite
Emergency Management Director	Gary Fried			Indefinite
Facilities Maintenance	Richard Scharpen			Indefinite
Human Services Director	Greg Schoener			Indefinite
Environmental Health Service Director	Jason Peterson			Indefinite
Public Health Service Administrator	Karen Main			Indefinite
Surveyor	Lisa Hanni			Indefinite
Veterans Service Officer	Robert Davis			March 2007

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Goodhue County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Goodhue County, Minnesota, as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Goodhue County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Goodhue County as of December 31, 2004, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplementary information as listed in the table of contents and the Management's Discussion and Analysis are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We

have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Goodhue County's basic financial statements. The supplementary information and other schedules listed in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2005, on our consideration of the 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* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 11, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**GOODHUE COUNTY
RED WING, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

(Unaudited)

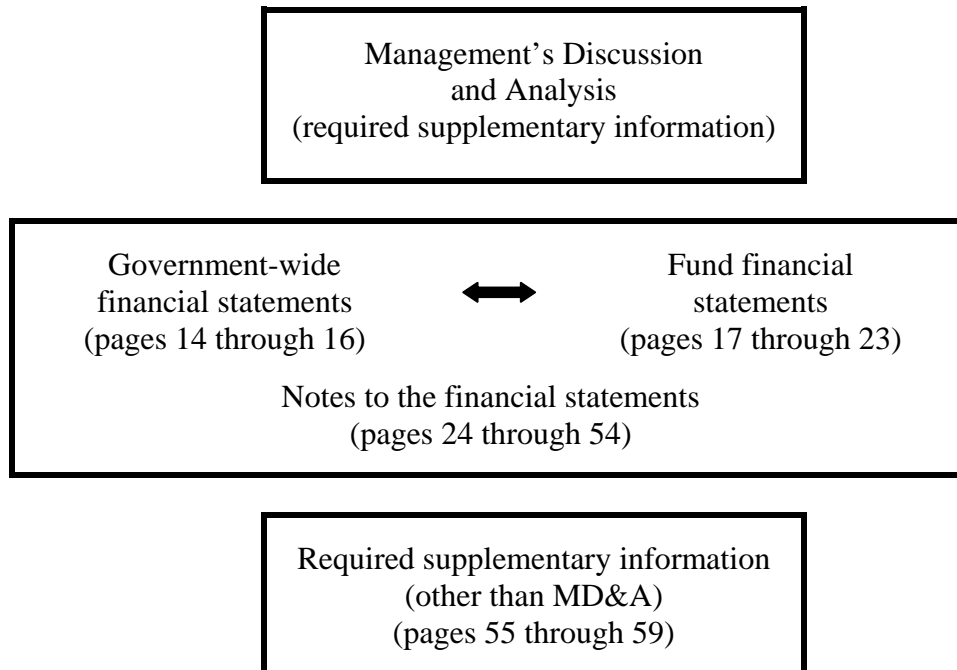
Goodhue County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2004. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements beginning on page 14.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$120,500,741, of which \$101,123,809 is invested in capital assets, net of related debt and \$1,877,208 is restricted to specific purposes (debt service and landfill postclosure).
- Goodhue County's Governmental Activities net assets increased by \$5,938,939 for the year ended December 31, 2004. The net assets of the County's discretely presented component unit increased by \$6,304 (the Belle Creek Watershed).
- The net cost of governmental activities increased by \$2,366,281 to \$17,881,369 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$23,820,308.
- Governmental funds' fund balances increased by \$627,459. The increase was due to the County financial plan specifying a \$700,000 annual levy to the General Fund Balance, adopted in 2000. The fund balance had a negative unreserved, undesignated balance at that time and required an annual levy to restore it to financial health.
- During the year, Goodhue County performed current refunding of the 1997 Landfill Bonds (March 2004), and advance refunding of the 1997 and 1998 Court Bonds (July 2004). These resulted in significant savings in debt service without extending the term of the debt, as indicated by the change in true interest rate:
 - Landfill Bonds, true interest rate dropped from 4.9669 percent to 2.6144 percent.
 - Court Bonds, true interest rate dropped from 4.9801 percent and 5.5931 percent to 3.5464 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Goodhue County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and certain budgetary comparison schedules are required to accompany the basic financial statements, and therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are interrelated.



There are two government-wide financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start with Exhibit 3. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

Government-Wide Financial Statements--The Statement of Net Assets and the Statement of Activities

Our analysis of the County as a whole begins with Exhibits 1 and 2. The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps the reader determine whether the County's financial condition

has improved or declined as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net assets and changes in them. You can think of the County's net assets--the difference between assets and liabilities--as one way to measure the County's financial health, or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the County's property tax base and the condition of County roads, to assess the overall health of the County.

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

- Governmental activities--Most of the County's basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.
- Component unit--The County includes one separate legal entity in its report, the Belle Creek Watershed. Although legally separate, the "component unit" is important because the County is financially accountable for it.

Fund Financial Statements

Our analysis of the County's major funds begins with Exhibit 3. The fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

Governmental funds--Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation in a statement following each governmental fund financial statement.

Fiduciary funds--The County is the trustee, or fiduciary, over assets which can be used only for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary activities are reported in a Statement of Fiduciary Net Assets, Exhibit 7. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

The County's combined net assets increased from \$114,561,802 to \$120,500,741 from year-end 2003 to year-end 2004. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities.

Table 1
Net Assets

	Governmental Activities	
	2004	2003
Current and other assets	\$ 29,042,172	\$ 28,086,041
Capital assets	117,506,372	113,717,443
Total Assets	\$ 146,548,544	\$ 141,803,484
Long-term debt outstanding	\$ 23,127,258	\$ 23,950,162
Other liabilities	2,920,545	3,291,520
Total Liabilities	\$ 26,047,803	\$ 27,241,682
Net Assets		
Invested in capital assets, net of debt	\$ 101,123,809	\$ 95,268,999
Restricted	1,877,208	972,149
Unrestricted	17,499,724	18,320,654
Total Net Assets	\$ 120,500,741	\$ 114,561,802

Net assets of the County governmental activities increased by 5.2 percent (\$120.5 million compared to \$114.5 million). Unrestricted net assets--the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--decreased from \$18.3 million as of December 31, 2003 to \$17.5 million at the end of 2004.

TABLE 2
Changes in Net Assets

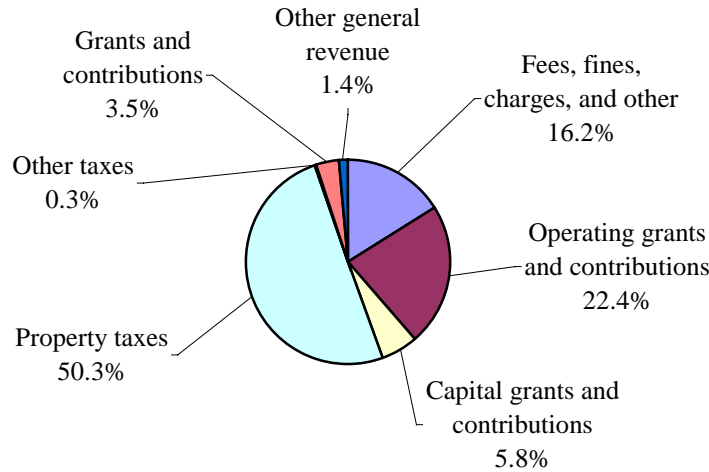
	Governmental Activities	
	2004	2003
Revenues		
Program revenues		
Fees, fines, charges, and other	\$ 6,949,708	\$ 7,709,197
Operating grants and contributions	9,626,621	9,001,205
Capital grants and contributions	2,490,770	2,038,974
General revenues		
Property taxes	21,563,746	20,959,103
Other taxes	142,000	157,827
Grants and contributions	1,509,487	2,338,470
Other general revenues	605,075	340,095
Total Revenues	\$ 42,887,407	\$ 42,544,871
Program expenses		
General government	\$ 7,439,119	\$ 7,655,589
Public safety	9,138,241	8,825,127
Highways and streets	6,540,118	4,345,532
Sanitation	762,432	780,723
Human services	8,125,366	7,802,474
Health	3,059,038	2,941,852
Culture and recreation	562,307	580,890
Conservation of natural resources	442,795	220,143
Economic development	19,435	138,182
Interest	859,617	973,952
Total Program Expenses	\$ 36,948,468	\$ 34,264,464
Increase (Decrease) in Net Assets	\$ 5,938,939	\$ 8,280,407

The County's total revenues increased by 0.8 percent (\$342,536). The total cost of all programs and services increased by \$2,684,004, or 7.8 percent, with no new programs added this year. Most of the increase was in highways and streets, human services, and public safety.

Governmental Activities

Revenues for the County governmental activities (\$42,887,407) increased by 0.8 percent (\$342,536), while total expenses (\$36,948,468) increased 7.8 percent (\$2,684,004). This reflects a \$5,938,939 increase in net assets in the year ended December 31, 2004.

Revenues by Source--Governmental Activities



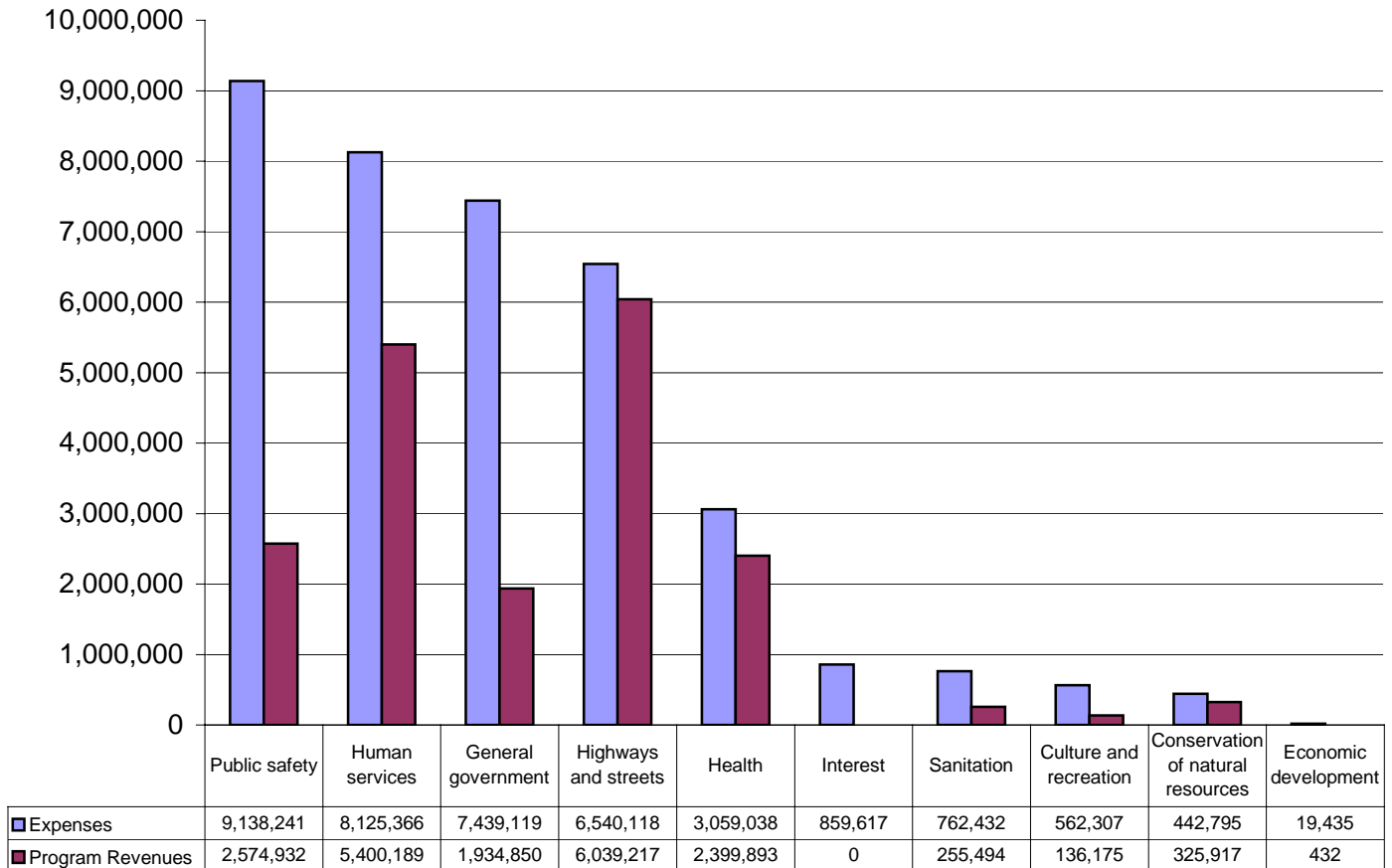
The cost of all governmental activities this year was \$36,948,468 compared to \$34,264,464 last year. However, as shown in the Statement of Activities on Exhibit 2, the amount that was financed through County general revenues was only \$17,881,369 because some of the cost was paid by those who directly benefited from the programs (\$6,949,708) or by other governments and organizations that subsidized certain programs with grants and contributions (\$12,117,391). Overall, the County’s governmental program revenues, including intergovernmental aid and fees for services, increased in 2004 from \$18,749,376 to \$19,067,099, principally based on increases in operating grants and capital grants. The County paid for the remaining “public benefit” portion of governmental activities with \$23,820,308 in general revenues, compared to \$23,795,495 in 2003, primarily taxes (some of which could be used only for certain programs) and other revenues, such as interest and general entitlements.

Table 3 presents the cost of each of the County’s five largest program functions, as well as each function’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**

	Total Cost of Services		Net Cost of Services	
	2004	2003	2004	2003
Public safety	\$ 9,138,241	\$ 8,825,127	\$ 6,563,309	\$ 5,492,099
Human services	8,125,366	7,802,474	2,725,177	2,155,694
General government	7,439,119	7,655,589	5,504,269	5,424,057
Highways and streets	6,540,118	4,345,532	500,901	(112,168)
Health	3,059,038	2,941,852	659,145	224,184
All others	2,646,586	2,693,890	1,928,568	2,331,222
Totals	\$ 36,948,468	\$ 34,264,464	\$ 17,881,369	\$ 15,515,088

The increase of 15 percent in the net cost of services is primarily due to a significant increase in road construction; and grant reductions affected public safety, human services, and health. These were caused by budget problems at the State of Minnesota.



The County's Funds

As the County completed the year, its governmental funds (as presented in the balance sheet on Exhibit 3) reported a combined fund balance of \$24,546,719, which is a 2.6 percent increase over last year's total of \$23,919,260. The total net change in governmental funds was \$627,459. The General Fund, primarily due to the \$700,000 levy to rebuild the fund balance, increased by \$866,200. The Road and Bridge Fund declined by \$1,262,602, primarily due to road construction that used significant carry-over money from the prior year.

General Fund Budgetary Highlights

During 2004, the County's General Fund expenditures were \$1,115,403 below the projected budget. Most of this is due to budgeted projects and capital expenditures not begun or completed during the year. As in 2003, Facilities Maintenance (buildings and plant) spent only 78 percent of budgeted expenditures due to delayed projects. In the general government department, both consultants' fees and miscellaneous expense were considerably under budget. Revenues for the

departments of Surveyor (269 percent of budgeted, mostly fee driven), Office of Emergency Management (267 percent, mostly driven by grants) were well above expectations. Jail revenues, however, were \$365,621 below budget (71 percent), mostly due to competition from other new jails. However, due to spatial configurations this jail provides, jail revenues for 2005 are expected to return to normal. Other factors were the \$700,000 levy to increase fund balance and approximately \$350,000 budgeted to capital improvements in the former jail building.

During 2004, the County received no State program aid and was shorted over \$392,000 of levy dollars as paid by State homestead credit aid. This was due to State budget problems leading to cuts in local aid.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the County had \$117,506,372 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4 below.) This amount represents a net increase (including additions and deductions) of \$3,788,929, or 3.3 percent, over last year.

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

	Governmental Activities	
	2004	2003
Land	\$ 7,498,518	\$ 7,304,469
Construction in progress	2,613,594	5,130,697
Buildings and improvements	26,780,787	27,548,352
Machinery, vehicles, furniture, and equipment	2,853,716	2,642,157
Infrastructure	<u>77,759,757</u>	<u>71,091,768</u>
Totals	<u>\$ 117,506,372</u>	<u>\$ 113,717,443</u>

The main increases were due to road construction projects. Remodeling of the former jail space for use by public health was also in process.

The County's fiscal-year 2005 capital budget calls for it to spend \$2,705,709 for capital equipment, increased from \$925,659 in 2004. Road and bridge construction capital budget decreased from \$5,845,074 in 2004 to \$4,987,454 in 2005.

Debt

At year-end, the County had \$19.1 million in bonds and notes outstanding versus \$20.1 million last year--a decrease of 4.8 percent--as shown in Table 5.

Table 5
Outstanding Debt, at Year-End
(in Millions)

	Governmental Activities	
	2004	2003
General obligation bonds and notes (backed by the County)	\$ 19,136,064	\$ 20,101,042

The County issued a Capital Note for \$975,000 in 2002 and no new debt in 2003. During 2004 and into early 2005, older bonds for the Landfill, Jail, and Courts were refunded at significantly lower interest rates..

The County’s general obligation bond rating continues to carry a rating of A-1; and in 2002, the “outlook” was changed from “negative” to “stable.” This rating dates to 1996. The State limits the amount of net debt that the County can issue to two percent of the market value of all taxable property in the County. The County’s outstanding net debt is significantly below this \$81.3 million state-imposed limit.

Other obligations include accrued vacation pay and sick leave payable. More detailed information about the County’s long-term liabilities is presented in Note 3.C. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The County’s elected and appointed officials considered many factors when setting the fiscal-year 2005 budget, tax rates, and fees to be charged.

- The State of Minnesota cut all of Goodhue County’s aid for 2004, including \$392,749 of its homestead market value credit which comprises part of its levy. Only two counties lost all of their HACA aid (Goodhue and Sherburne). State program aid certified for the 2005 budget is \$1,755,421; however, due to the State budget crisis, the County is very concerned about an unallotment of aid. To guard against that contingency, the County allotted the potential State aid to fund the majority of 2005 capital expenditures. Due to this, departments were not dependent on State aid and would not need to plan for mid-year budget cuts.
- Goodhue County’s unemployment rate declined from 5.2 percent in 2003 to 4.8 percent in 2004. Concern remains over closings of some older industries in Red Wing.
- County General Fund expenditures for 2005 are budgeted to increase 1.8 percent over 2004.
- Total County expenditures are budgeted to increase 3.7 percent in 2005 over 2004 budgets.

- The “new” jail continues to produce revenue beyond budgeted expectations. We expect this to gradually taper off as other counties complete new jails. During 2004, jail revenues were 71 percent of projections, but indications for 2005 project a return to higher revenues.
- County net tax base increased by 9 percent (payable 2005), following increases of 8.5 percent and 8 percent in prior years.
- County property tax levies have increased 3.0 percent for 2005.
- Refunding bonds were issued for the Landfill Bonds and the Courts Building Lease Revenue Bonds #1 and #2 during 2004. In 2005, we project refunding the two Jail bonds with additional interest savings. By the end of 2005, virtually all County debt will be paid off or refinanced at significantly lower interest rates.

CONTACTING THE COUNTY’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County’s finances and to show the County’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Auditor/Treasurer/Assessor Bradford Johnson, Goodhue County Courthouse, 509 West 5th Street, P.O Box 408, Red Wing, Minnesota 55066.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

	Primary Government Governmental Activities	Belle Creek Watershed Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 23,909,944	\$ 207,296
Petty cash and change funds	4,150	-
Departmental cash	10,231	-
Cash with escrow agent	1,691,531	-
Taxes receivable		
Prior - net	579,149	-
Accounts receivable - net	136,921	-
Accrued interest receivable	23,639	13,518
Loans receivable	46,646	-
Due from other governments	1,954,310	-
Due from primary government	-	174
Prepaid items	1,240	-
Inventories	374,817	-
Restricted assets		
Cash and pooled investments	185,677	-
Deferred charges	123,917	-
Capital assets		
Non-depreciable	10,112,112	378,550
Depreciable, net of accumulated depreciation	107,394,260	-
	\$ 146,548,544	\$ 599,538
<u>Liabilities</u>		
Accounts payable	\$ 636,254	\$ -
Salaries payable	529,700	-
Contracts payable	308,943	-
Due to other governments	756,434	-
Accrued interest payable	327,628	-
Unearned revenue	361,586	-
Long-term liabilities		
Due within one year	4,469,372	-
Due in more than one year	18,657,886	-
	\$ 26,047,803	\$ -
<u>Net Assets</u>		
Invested in capital assets, net of related debt	\$ 101,123,809	\$ 378,550
Restricted for		
Debt service	1,691,531	-
Landfill postclosure	185,677	-
Unrestricted	17,499,724	220,988
	\$ 120,500,741	\$ 599,538

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

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**GOODHUE COUNTY
RED WING, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 7,439,119	\$ 1,514,734
Public safety	9,138,241	1,868,289
Highways and streets	6,540,118	79,732
Sanitation	762,432	255,494
Human services	8,125,366	1,211,335
Health	3,059,038	1,997,154
Culture and recreation	562,307	22,779
Conservation of natural resources	442,795	191
Economic development	19,435	-
Interest	859,617	-
	\$ 36,948,468	\$ 6,949,708
Total primary government	\$ 36,948,468	\$ 6,949,708
Component Unit		
Belle Creek Watershed	\$ 9,284	\$ -

General Revenues

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

Total general revenues

Change in net assets

Net Assets - Beginning (Note 1.D.11, Restated)

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Belle Creek Watershed Discretely Presented Component Unit
\$ 389,704	\$ 30,412	\$ (5,504,269)	
706,643	-	(6,563,309)	
3,515,566	2,443,919	(500,901)	
-	-	(506,938)	
4,188,854	-	(2,725,177)	
402,739	-	(659,145)	
113,396	-	(426,132)	
309,287	16,439	(116,878)	
432	-	(19,003)	
-	-	(859,617)	
\$ 9,626,621	\$ 2,490,770	\$ (17,881,369)	
\$ -	\$ -		\$ (9,284)
		\$ 21,563,746	\$ 10,331
		80,926	-
		61,074	-
		147,406	-
		1,509,487	-
		412,073	5,251
		33,010	6
		12,586	-
		\$ 23,820,308	\$ 15,588
		\$ 5,938,939	\$ 6,304
		114,561,802	593,234
		\$ 120,500,741	\$ 599,538

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>						
Cash and pooled investments	\$ 11,032,547	\$ 3,586,090	\$ 4,147,466	\$ 3,169,830	\$ 1,974,011	\$ 23,909,944
Petty cash and change funds	1,350	50	450	-	2,300	4,150
Departmental cash	10,231	-	-	-	-	10,231
Cash with escrow agent	-	-	-	1,691,531	-	1,691,531
Taxes receivable						
Prior	314,754	76,713	72,405	89,830	25,447	579,149
Accounts receivable	27,039	16,149	7,118	-	86,615	136,921
Accrued interest receivable	23,639	-	-	-	-	23,639
Due from other funds	195,597	6,126	4,284	-	62,831	268,838
Due from other governments	447,643	736,201	681,269	-	89,197	1,954,310
Inventories	-	374,817	-	-	-	374,817
Loans receivable	-	-	-	-	46,646	46,646
Prepaid items	693	115	212	-	220	1,240
Restricted assets						
Cash and pooled investments	-	-	-	-	185,677	185,677
Total Assets	<u>\$ 12,053,493</u>	<u>\$ 4,796,261</u>	<u>\$ 4,913,204</u>	<u>\$ 4,951,191</u>	<u>\$ 2,472,944</u>	<u>\$ 29,187,093</u>
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 381,019	\$ 37,328	\$ 183,276	\$ 60	\$ 34,571	\$ 636,254
Salaries payable	287,299	52,304	94,777	-	95,320	529,700
Claims and judgments payable - current	440,000	-	-	-	-	440,000
Contracts payable	-	308,943	-	-	-	308,943
Due to other funds	36,520	42,368	122,033	-	67,917	268,838
Due to other governments	48,242	10,293	680,687	-	17,212	756,434
Deferred revenue - unavailable	356,714	530,209	290,749	67,714	93,233	1,338,619
Deferred revenue - unearned	-	130,520	231,066	-	-	361,586
Total Liabilities	<u>\$ 1,549,794</u>	<u>\$ 1,111,965</u>	<u>\$ 1,602,588</u>	<u>\$ 67,774</u>	<u>\$ 308,253</u>	<u>\$ 4,640,374</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Road and Bridge	Human Services	Debt Service	Other Governmental Funds	Total Governmental Funds
Liabilities and Fund Balances						
(Continued)						
Fund Balances						
Reserved for						
Encumbrances	\$ -	\$ 897,223	\$ -	\$ -	\$ -	\$ 897,223
Inventories	-	374,817	-	-	-	374,817
Sheriff's contingency	1,215	-	-	-	-	1,215
Debt service	-	-	-	1,691,531	-	1,691,531
Enhanced 911	103,525	-	-	-	-	103,525
Victim assistance	9,003	-	-	-	-	9,003
Gravel pit closure	23,332	-	-	-	-	23,332
Prepaid items	693	115	212	-	220	1,240
Law library	85,057	-	-	-	-	85,057
Recorder's equipment purchases	26,675	-	-	-	-	26,675
Gun permit applications	5,608	-	-	-	-	5,608
Sheriff's forfeited property	1,914	-	-	-	-	1,914
Attorney's forfeited property	15,679	-	-	-	-	15,679
Veterans' transportation	2,881	-	-	-	-	2,881
Unclaimed funds	1,012	-	-	-	-	1,012
Contract	8,183	-	-	-	-	8,183
Correction service fee	35,732	-	-	-	-	35,732
DUI penalty assessment	1,259	-	-	-	-	1,259
Sheriff K-9	1,056	-	-	-	-	1,056
Local correctional fees	39,437	-	-	-	-	39,437
NPP funds	116,642	-	-	-	-	116,642
Juvenile accountability	10,627	-	-	-	-	10,627
Reality bites program	2,613	-	-	-	-	2,613
Community support program	-	-	1,229	-	-	1,229
Unreserved, designated in major funds (see Note 3.D.)	4,082,338	117,657	450	3,191,886	-	7,392,331
Unreserved, undesignated	5,929,218	2,294,484	3,308,725	-	-	11,532,427
Unreserved in nonmajor special revenue funds	-	-	-	-	2,164,471	2,164,471
Total Fund Balances	\$ 10,503,699	\$ 3,684,296	\$ 3,310,616	\$ 4,883,417	\$ 2,164,691	\$ 24,546,719
Total Liabilities and Fund Balances	\$ 12,053,493	\$ 4,796,261	\$ 4,913,204	\$ 4,951,191	\$ 2,472,944	\$ 29,187,093

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Fund balances - total governmental funds (Exhibit 3)	\$	24,546,719
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		117,506,372
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		1,338,619
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	\$ (2,538,317)	
Revenue bonds	(15,023,006)	
Capital notes	(1,240,000)	
Loans payable	(156,071)	
Deferred debt issuance charges	123,917	
Compensated absences	(2,852,598)	
Accrued interest payable	(327,628)	
Landfill postclosure care liability	(877,266)	(22,890,969)
Net assets of governmental activities (Exhibit 1)		<u>\$ 120,500,741</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues						
Taxes	\$ 12,021,588	\$ 2,849,099	\$ 2,760,062	\$ 3,142,625	\$ 907,352	\$ 21,680,726
Special assessments	1,455	-	-	14,984	-	16,439
Licenses and permits	13,320	9,355	-	-	637,803	660,478
Intergovernmental	2,451,199	6,153,008	4,174,767	5,812	683,170	13,467,956
Charges for services	2,373,925	37,847	738,992	-	1,835,611	4,986,375
Fines and forfeits	150,903	-	-	-	-	150,903
Gifts and contributions	31,369	-	-	-	71	31,440
Interest on investments	409,969	-	-	3,305	2,265	415,539
Miscellaneous	522,534	32,530	472,343	-	205,436	1,232,843
Total Revenues	\$ 17,976,262	\$ 9,081,839	\$ 8,146,164	\$ 3,166,726	\$ 4,271,708	\$ 42,642,699
Expenditures						
Current						
General government	\$ 6,741,912	\$ -	\$ -	\$ -	\$ 596,797	\$ 7,338,709
Public safety	8,906,479	-	-	-	-	8,906,479
Highways and streets	-	10,349,127	-	-	-	10,349,127
Sanitation	-	-	-	-	683,527	683,527
Human services	-	-	8,128,735	-	-	8,128,735
Health	-	-	-	-	3,091,294	3,091,294
Culture and recreation	427,047	135,260	-	-	-	562,307
Conservation of natural resources	441,554	-	-	-	-	441,554
Economic development	-	-	-	-	19,435	19,435
Debt service						
Principal retirement	20,062	-	-	2,044,978	-	2,065,040
Interest	1,426	-	-	913,479	-	914,905
Bond issuance costs	-	-	-	123,917	-	123,917
Advance refunding escrow	-	-	-	425,000	-	425,000
Intergovernmental						
Highways and streets	-	314,915	-	-	-	314,915
Total Expenditures	\$ 16,538,480	\$ 10,799,302	\$ 8,128,735	\$ 3,507,374	\$ 4,391,053	\$ 43,364,944
Excess of Revenues Over (Under) Expenditures	\$ 1,437,782	\$ (1,717,463)	\$ 17,429	\$ (340,648)	\$ (119,345)	\$ (722,245)
Other Financing Sources (Uses)						
Transfers in	\$ -	\$ 441,573	\$ 56,316	\$ -	\$ 80,464	\$ 578,353
Transfers out	(578,353)	-	-	-	-	(578,353)
Proceeds from refunding bonds	-	-	-	6,140,000	-	6,140,000
Payment to refunded bond escrow	-	-	-	(4,845,871)	-	(4,845,871)
Premium on bonds issued	-	-	-	32,201	-	32,201
Proceeds from sale of capital assets	6,771	2,500	-	-	3,315	12,586
Total Other Financing Sources (Uses)	\$ (571,582)	\$ 444,073	\$ 56,316	\$ 1,326,330	\$ 83,779	\$ 1,338,916

**GOODHUE COUNTY
RED WING, MINNESOTA**

***EXHIBIT 5
(Continued)***

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Net Change to Fund Balance	\$ 866,200	\$ (1,273,390)	\$ 73,745	\$ 985,682	\$ (35,566)	\$ 616,671
Fund Balance - January 1	9,637,499	4,946,898	3,236,871	3,897,735	2,200,257	23,919,260
Increase (decrease) in reserved for inventories	-	10,788	-	-	-	10,788
Fund Balance - December 31	<u>\$ 10,503,699</u>	<u>\$ 3,684,296</u>	<u>\$ 3,310,616</u>	<u>\$ 4,883,417</u>	<u>\$ 2,164,691</u>	<u>\$ 24,546,719</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 616,671

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 expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 1,338,619	
Deferred revenue - January 1	(988,177)	350,442

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 capital assets is reported; whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed of.

Expenditures for general capital assets and infrastructure	\$ 7,570,513	
Net book value of disposed assets	(119,781)	
Current year depreciation	(3,661,803)	3,788,929

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal consumes the current financial resources of governmental funds. Neither transaction; however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, in the statement of activities these amounts are deferred.

The net proceeds for debt issuance are		
Bonds issued	\$ (6,140,000)	
Bond issuance costs	123,917	
Premium on bonds issued	(32,201)	(6,048,284)

Principal repayments		
To refunded bond escrow	\$ 5,270,871	
Expenditures for principal retirement	2,065,040	7,335,911

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.

Change in accrued interest payable	\$ 55,288	
Change in landfill post-closure care liability	(29,226)	
Change in compensated absences	(141,580)	
Change in inventories	10,788	(104,730)

Change in net assets of governmental activities (Exhibit 2) \$ 5,938,939

FIDUCIARY FUNDS

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GOODHUE COUNTY
RED WING, MINNESOTA

EXHIBIT 7

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2004

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 1,375,182
Departmental cash	24,966
Due from other governments	<u>111,074</u>
Total Assets	<u>\$ 1,511,222</u>
<u>Liabilities</u>	
Due to component unit	174
Due to other governments	<u>1,511,048</u>
Total Liabilities	<u>\$ 1,511,222</u>

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**GOODHUE COUNTY
RED WING, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

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, 2004. 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 (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

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

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Units

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

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

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

The County's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Human Services Special Revenue Fund is used to account for economic assistance and community social services programs.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

Additionally, the County reports the following fund types:

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

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Goodhue County considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, 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 they are needed.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2004, 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 2004 were \$409,969.

Goodhue County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

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

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

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 fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on 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, and Net Assets or Equity (Continued)

3. Inventories and Prepaid Items

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

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

4. Restricted Assets

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

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 market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

Assets	Years
Buildings	25 - 50
Building improvements	20 - 50
Public domain infrastructure	25 - 75
Furniture, equipment, and vehicles	3 - 20

6. Compensated Absences

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

7. Deferred Revenue

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

	Unavailable	Unearned
Delinquent property taxes	\$ 435,786	\$ -
Loans receivable	46,646	-
Receivables that do not provide current financial resources	856,187	-
Grant drawdowns prior to meeting all eligibility requirements	-	231,066
State aid allotments received in advance	-	130,520
Total deferred/unearned revenue for all governmental funds	\$ 1,338,619	\$ 361,586

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Use of Estimates

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Prior Period Adjustments

Accumulated depreciation for machinery, furniture, and equipment was overstated at December 31, 2003, by \$133,572. A prior period adjustment was made to the government-wide financial statements for this amount.

E. Revenues

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

Imposed Nonexchange Transactions

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

Intergovernmental

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues

Intergovernmental (Continued)

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

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

Exchange Transactions

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

2. Stewardship, Compliance, and Accountability

Expenditures in Excess of Budget

The following is a summary of the individual funds which had expenditures in excess of budget for the year ended December 31, 2004.

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Road and Bridge	\$ 8,891,673	\$ 10,799,302	\$ 1,907,629
Human Services	8,027,835	8,128,735	100,900
Economic Development Authority	13,185	19,435	6,250
Public Health	3,006,638	3,091,294	84,656
Waste Management	667,180	677,980	10,800
Debt Service	3,229,953	3,507,374	277,421

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

Primary government		
Cash and pooled investments	\$	23,909,944
Cash with escrow agent		1,691,531
Restricted assets		
Cash and pooled investments		185,677
Fiduciary funds		
Agency funds		
Cash and pooled investments		1,375,182
Total Cash and Investments	\$	27,162,334

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$21,563,148. The bank balance deposit amount was \$22,677,038. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 341,382
Collateralized with securities held by the pledging financial institution's agent in the County's name	22,335,656
Total covered deposits	\$ 22,677,038
Uncollateralized	-
Total	\$ 22,677,038

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the County's name.

Following is a summary of the fair values of the County's investments, categorized into the aforementioned levels of risk, at December 31, 2004:

	Category			Fair Value
	1	2	3	
U.S. government securities	\$ 1,575,036	\$ -	\$ -	\$ 1,575,036
Cash with escrow agent	-	-	1,691,531	1,691,531
Total Investments	\$ 1,575,036	\$ -	\$ 1,691,531	\$ 3,266,567
Add				
Checking accounts				2,896,125
Savings accounts				18,655,194
Certificates of deposit				11,829
Money market mutual fund				1,515,491
Minnesota Association of Governments Investing for Counties (MAGIC)				817,128
Total Cash and Investments				\$ 27,162,334

2. Receivables

Receivables as of December 31, 2004, including the applicable allowances for uncollectible accounts, are as follows:

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 579,149	\$ -
Due from other governments	1,954,310	-
Accounts	136,921	-
Interest	23,639	-
Loans receivable	46,646	46,646
	\$ 2,740,665	\$ 46,646

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 7,304,469	\$ 194,049	\$ -	\$ 7,498,518
Construction in progress	5,130,697	2,613,594	5,130,697	2,613,594
Total capital assets not depreciated	\$ 12,435,166	\$ 2,807,643	\$ 5,130,697	\$ 10,112,112
Capital assets depreciated				
Buildings	\$ 35,022,154	\$ 65,138	\$ -	\$ 35,087,292
Machinery, furniture, and equipment	6,769,246	837,097	147,496	7,458,847
Infrastructure	113,561,418	8,991,332	559,450	121,993,300
Total capital assets depreciated	\$ 155,352,818	\$ 9,893,567	\$ 706,946	\$ 164,539,439
Less: accumulated depreciation for				
Buildings	\$ 7,473,802	\$ 832,703	\$ -	\$ 8,306,505
Machinery, furniture, and equipment	4,127,089	619,205	141,163	4,605,131
Infrastructure	42,469,650	2,209,895	446,002	44,233,543
Total accumulated depreciation	\$ 54,070,541	\$ 3,661,803	\$ 587,165	\$ 57,145,179
Total capital assets depreciated, net	\$ 101,282,277	\$ 6,231,764	\$ 119,781	\$ 107,394,260
Capital Assets, Net	\$ 113,717,443	\$ 9,039,407	5,250,478	\$ 117,506,372

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

The beginning balance of accumulated depreciation was adjusted by \$133,572 for a prior period adjustment.

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

Governmental Activities		
General government	\$	768,454
Public safety		247,892
Conservation of natural resources		601
Highways and streets, including depreciation of infrastructure assets		2,528,809
Human services		40,655
Health		14,698
Sanitation		60,694
		60,694
Total Depreciation Expense - Governmental Activities	\$	3,661,803

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Road and Bridge Human Services Public Health Land Use Management Waste Management	\$ 42,368 85,630 47,980 10,263 9,356
Total Due to General Fund		\$ 195,597
Road and Bridge	General Land Use Management	\$ 5,808 318
Total Due to Road and Bridge Fund		\$ 6,126

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

Receivable Fund	Payable Fund	Amount
Human Services	General	\$ 4,284
Public Health	General	\$ 26,428
	Human Services	36,403
Total Due to Public Health		\$ 62,831
Total Due To/From Other Funds		\$ 268,838

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

Transfers to Road and Bridge Fund from the General Fund	\$ 441,573	Capital expenditures and health insurance premiums
Transfers to Human Services Fund from the General Fund	56,316	Health insurance premiums
Transfers to Land Use Management Fund from the General Fund	11,054	Capital expenditures and health insurance premiums
Transfers to Public Health Fund from the General Fund	49,362	Capital expenditures and health insurance premiums
Transfers to Waste Management Fund from the General Fund	20,048	Capital expenditures and health insurance premiums
Total Interfund Transfers	\$ 578,353	

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

	Governmental Activities
Accounts	\$ 636,254
Salaries	529,700
Contracts	308,943
Due to other governments	756,434
Total Payables	\$ 2,231,331

2. Construction Commitments

The government has active construction projects as of December 31, 2004. The projects include the following (amounts in thousands):

	Spent-to-Date	Remaining Commitment
Public Health Building Remodel	\$ 332,748	\$ 399,644

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
General Obligation Bonds					
1996A G.O. Jail Lease Revenue Bonds	2012	\$335,000 - \$900,000	3.90 - 5.20	\$ 9,675,000	\$ 6,115,000
1997A G.O. Landfill Closure Bonds	2013	\$45,000 - \$175,000	4.00 - 5.00	1,855,000	1,300,000
1997B G.O. Welch Village Revenue Bonds	2018	\$3,070 - \$8,247	1.58	143,750	99,993
1998A G.O. Jail Lease Revenue Bonds	2014	\$275,000 - \$495,000	4.125 - 4.70	5,845,000	4,085,000
1998, 2001 and 2003 G.O. Revenue Notes	2023	\$1,284 - \$7,804	0.00	175,670	156,071

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
General Obligation Bonds (Continued)					
2004A G.O. Landfill Closure Refunding Bonds	2013	\$140,000 - \$170,000	1.375 - 3.10	1,235,000	1,235,000
2004A G.O. Courts Building Lease Revenue Bonds	2013	\$240,000 - \$660,000	2.00 - 3.80	4,905,000	4,905,000
Total General Obligation Bonds				<u>\$ 23,834,420</u>	<u>\$ 17,896,064</u>
General Obligation Capital Notes					
2001C G.O. Capital Equipment Note	2006	\$225,000 - \$255,000	2.00 - 3.15	1,195,000	500,000
2002A G.O. Capital Equipment Note	2007	\$235,000 - \$255,000	2.00 - 2.75	975,000	740,000
Total General Obligation Capital Notes				<u>\$ 2,170,000</u>	<u>\$ 1,240,000</u>

4. Debt Service Requirements

Debt service requirements at December 31, 2004, were as follows:

Year Ending December 31	General Obligation Bonds		General Obligation Revenue Bonds	
	Principal	Interest	Principal	Interest
2005	\$ 1,300,000	\$ 38,885	\$ 1,231,700	\$ 628,790
2006	140,000	28,201	1,541,807	574,110
2007	145,000	26,061	1,601,915	511,319
2008	145,000	23,433	1,672,024	443,011
2009	155,000	20,239	1,747,136	369,208
2010 - 2014	650,000	39,358	7,382,414	672,438
2015 - 2018	-	-	27,997	892
Total	<u>\$ 2,535,000</u>	<u>\$ 176,177</u>	<u>\$ 15,204,993</u>	<u>\$ 3,199,768</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

Year Ending December 31	General Obligation Capital Notes		General Obligation Revenue Notes	
	Principal	Interest	Principal	Interest
2005	\$ 485,000	\$ 30,920	\$ -	\$ -
2006	500,000	18,108	-	-
2007	255,000	3,506	-	-
2008	-	-	-	-
2009	-	-	6,000	-
2010 - 2014	-	-	53,687	-
2015 - 2019	-	-	72,035	-
2020 - 2023	-	-	24,349	-
Total	\$ 1,240,000	\$ 52,534	\$ 156,071	\$ -

5. Advance Refunding

In 2004, the County issued \$4,905,000 General Obligation Court Building Lease Revenue Refunding Bonds that, along with County resources, were used to purchase U.S. government, state, and local government series securities, which were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$5,060,000 for the Courts Building Lease Revenue Bonds, Series 1997A and 1998B. This advance refunding was undertaken to reduce total debt service payments over the next nine years by \$472,000 and resulted in an economic gain of \$226,210.

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Changes in Long-Term Liabilities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-Term Liabilities					
Bonds payable					
G.O. bonds	\$ 1,410,000	\$ 1,235,000	\$ 110,000	\$ 2,535,000	\$ 1,300,000
G.O. revenue bonds	16,701,589	4,905,000	6,401,596	15,204,993	1,231,700
G.O. capital notes	1,833,382	-	593,382	1,240,000	485,000
G.O. notes	156,071	-	-	156,071	-
Deferred amounts					
Issuance premiums	-	32,201	-	32,201	-
Refunding	-	(210,871)	-	(210,871)	-
Total bonds and notes payable	\$ 20,101,042	\$ 5,961,330	\$ 7,104,978	\$ 18,957,394	\$ 3,016,700
Capital leases	20,062	-	20,062	-	-
Claims and judgments	270,000	2,963,593	2,793,593	440,000	440,000
Closure and postclosure care	848,040	29,226	-	877,266	-
Compensated absences	2,711,018	1,686,214	1,544,634	2,852,598	1,012,672
Total Long-Term Liabilities	\$ 23,950,162	\$ 10,640,363	\$ 11,463,267	\$ 23,127,258	\$ 4,469,372

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 \$877,266 landfill closure and postclosure care liability at December 31, 2004, is based on what it would cost to perform all closure and postclosure care in 2004. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Not included in the above liability are \$1,140,388 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, 2004, investments of \$185,677 are held for these purposes. These are reported as restricted assets on the balance sheet. Because the amount in trust is considerably smaller than the

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Landfill Closure and Postclosure Care Costs (Continued)

estimated postclosure care and contingency costs, the state has required Goodhue County to obtain a letter of credit for \$2,200,000 to ensure financing is available, if needed.

D. Fund Balance Designations

Fund balances of the major governmental funds were designated as follows, at December 31, 2004.

<u>Designation</u>	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Debt Service</u>
Petty cash and change	\$ 1,350	\$ 50	\$ 450	\$ -
Debt service	-	-	-	3,191,886
Inmate improvement	11,944	-	-	-
Ordinance enforcement	56,627	-	-	-
Buildings and grounds	28,691	88,755	-	-
Employee training and development	24,868	-	-	-
Medical insurance	707,709	-	-	-
Extension ag program	12,159	-	-	-
Byllesby Dam	314,686	-	-	-
Reserve	2,468,363	-	-	-
Reserve compensation	455,941	-	-	-
Byllesby Park	-	28,852	-	-
Total	<u>\$ 4,082,338</u>	<u>\$ 117,657</u>	<u>\$ 450</u>	<u>\$ 3,191,886</u>

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Goodhue County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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.

Public 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. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates are covered by the Public Employees Correctional Fund.

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

For all Public Employees Retirement Fund members 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. 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.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the web at 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. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. 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. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.2 percent of their annual covered salary. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Police and Fire Fund	9.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
	_____	_____	_____
2004	\$ 626,160	\$ 183,962	\$ 162,116
2003	592,149	179,183	139,439
2002	579,644	172,170	132,458

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

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan. The County's contributions for the years ending December 31, 2004, 2003, and 2002, were \$335, \$0, and \$0, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Summary of Significant Contingencies and Other Items

A Risk Management

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

The Workers' Compensation Division of the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The County established a limited risk management program for health coverage in 2002. Premiums are paid into the General Fund by all other funds and are available to pay claims, for claim reserves, and for administrative costs of the program. The County has retained risk up to a \$100,000 stop-loss per family per year (\$1,000,000 aggregate) for the health plan.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended December 31	
	2004	2003
Unpaid claims, beginning of fiscal year	\$ 270,000	\$ 242,000
Incurred claims (including IBNRs)	2,963,593	2,568,527
Claims payments	(2,793,593)	(2,540,527)
Unpaid Claims, End of Fiscal Year	\$ 440,000	\$ 270,000

B. Subsequent Events

During January 2005, the County Board authorized the issuance of \$5,670,000 General Obligation Jail Refunding Bonds, Series 2005A.

C. 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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Contingent Liabilities (Continued)

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.

D. Joint Ventures

Southeastern Minnesota Multi-County Housing and Redevelopment Authority

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

Southeast Minnesota 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 Family Services Collaborative

The Goodhue County Family Services Collaborative was established June 24, 1999, under the authority of the Joint Powers Act, pursuant to Minn. Stat. §§ 471.59 and 124D.23. The Collaborative includes Goodhue County Social Services, Goodhue County Court Services, Goodhue County Public Health, Goodhue County Mental

**GOODHUE COUNTY
RED WING, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Goodhue County Family Services Collaborative (Continued)

Health, 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 Goodhue County Family Services Collaborative is vested in a seven-member governing board appointed by the member parties.

Financing is provided by state and federal grants and contributions from its member parties. Goodhue County, in an agent capacity, reports the cash transactions of the Goodhue County Family Services Collaborative as an agency fund in its financial statements.

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. The agreement was in accordance with Section 256B.692, which allows the formation of a Board of Directors to operate, control, and manage all matters concerning the nine participating member counties' health care functions. 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.

While SCHA was created on July 2, 1998, it did not begin providing health maintenance services until November 1, 2001. At that time, SCHA began coverage of the beneficiaries enrolled under Medicaid and General Assistance Medical Care in the specified counties. Funding is provided from the State of Minnesota based on eligible participants within the member counties. Goodhue County's contribution for start-up costs through October 31, 2001, was \$149,353.

**GOODHUE COUNTY
RED WING, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

South Country Health Alliance (Continued)

In the event SCHA incurs operating deficits, the member counties would maintain SCHA's reserves to meet statutory and regulatory reserve requirements. Minnesota statutes require SCHA to maintain capital surplus equal to or greater than one month's expenditures, but less than three months' expenditures.

Complete financial statements for SCHA can be obtained from its fiscal agent at 630 Florence Avenue, P.O. Box 890, Owatonna, Minnesota 55060-0890.

E. Debt Obligation Contingency

The Southeast Minnesota Multi-County Housing and Redevelopment Authority (HRA) issued \$300,500 General Obligation Tax Increment Bonds, Series 1996, on October 15, 1996. The purpose of the issuance was to provide funds to acquire land for future development of housing in accordance with Minn. Stat. § 469.178, subd. 2, for the Southeast Minnesota Multi-County Housing and Redevelopment Authority (HRA). The principal and interest on the bonds are payable primarily from revenues from the sale of such land, investment earnings on the bonds, and tax increments resulting from increases in valuation of real property in Tax Increment Financing District 1-1. In the event of a deficiency, the HRA has pledged to levy its special benefit tax, up to \$10,000 per year; and the City of Goodhue, Minnesota, has pledged its full faith and credit up to \$10,000 per year. Should these other taxing authorities 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.

On September 21, 2004, the County approved the HRA pledge of the special benefit tax levy to pay the \$1,250,000 tax increment revenue bonds issued by the HRA.

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**

5. Summary of Significant Contingencies and Other Items

E. Debt Obligation Contingency

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

Loan activity for 2004 and prior years is:

	Prior Years	During 2004
Number of loans made	22	1
Loans outstanding - January 1	\$ -	\$ 68,376
Loans made	167,771	5,546
Payments made on loans	(99,395)	(33,154)
Loans outstanding - December 31	\$ 68,376	\$ 40,768

6. Belle Creek Watershed Disclosures

A. Summary of Significant Accounting Policies

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

Reporting Entity

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

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

Basis of Presentation

The District does not prepare separate financial statements. The District presents its one fund as a governmental fund.

Basis of Accounting

The District General Fund is accounted for on the modified accrual basis of accounting.

**GOODHUE COUNTY
RED WING, MINNESOTA**

6. Belle Creek Watershed Disclosures (Continued)

B. Detailed Notes on the General Fund

Cash and Pooled Investments

Minnesota statutes authorize the District to deposit its cash and to invest in certificates of deposit in financial institutions designated by the District Board. At December 31, 2004, the carrying amount of the District's deposits totaled \$207,296. The bank balance deposit amount was \$207,296. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the District or its agent in the District's name	\$ 100,000
Collateralized with securities held by the pledging financial institution's agent in the District's name	107,296
Total covered deposits	\$ 207,296
Uncollateralized	-
Total	\$ 207,296

Capital Assets

The District capital asset activity for the year ended December 31, 2004, was as follows:

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

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REQUIRED SUPPLEMENTARY INFORMATION

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**GOODHUE COUNTY
RED WING, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 11,858,565	\$ 11,858,565	\$ 12,021,588	\$ 163,023
Special assessments	-	-	1,455	1,455
Licenses and permits	13,850	13,850	13,320	(530)
Intergovernmental	1,841,901	1,870,488	2,451,199	580,711
Charges for services	2,596,912	2,608,412	2,373,925	(234,487)
Fines and forfeits	122,950	122,950	150,903	27,953
Gifts and contributions	-	-	31,369	31,369
Interest on investments	353,000	353,000	409,969	56,969
Miscellaneous	186,005	186,005	522,534	336,529
Total Revenues	\$ 16,973,183	\$ 17,013,270	\$ 17,976,262	\$ 962,992
Expenditures				
Current				
General government				
Commissioners	\$ 196,441	\$ 196,441	\$ 196,046	\$ 395
Courts	530,862	531,180	492,407	38,773
County administration	236,602	238,558	234,014	4,544
County auditor	408,651	411,890	378,514	33,376
County assessor	585,292	585,769	576,396	9,373
Elections	97,455	97,455	64,869	32,586
Data processing	689,102	697,102	636,879	60,223
Personnel	206,324	209,502	206,769	2,733
Attorney	997,027	1,014,121	1,049,513	(35,392)
Law library	83,220	83,220	76,170	7,050
Recorder	385,474	386,223	306,931	79,292
Surveyor	318,890	324,220	351,372	(27,152)
GIS	88,718	88,718	82,118	6,600
Buildings and plant	1,220,847	1,220,847	958,090	262,757
Veterans service officer	127,646	136,874	152,796	(15,922)
Other general government	1,669,584	1,958,007	979,028	978,979
Total general government	\$ 7,842,135	\$ 8,180,127	\$ 6,741,912	\$ 1,438,215
Public safety				
Sheriff	\$ 3,136,933	\$ 3,082,860	\$ 3,070,727	\$ 12,133
Boat and water safety	148,272	148,272	143,179	5,093
E-911 system	607,788	627,788	756,180	(128,392)
Emergency services	121,520	121,520	282,470	(160,950)
Coroner	67,000	76,461	76,461	-
Law enforcement center	3,662,997	3,662,997	3,698,644	(35,647)
Court services	828,230	828,230	854,890	(26,660)
Family court services	50,739	50,739	23,928	26,811
Total public safety	\$ 8,623,479	\$ 8,598,867	\$ 8,906,479	\$ (307,612)

**GOODHUE COUNTY
RED WING, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<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	\$ 100,766	\$ 100,766	\$ 100,766	\$ -
Regional library	274,773	274,773	274,773	-
Byllesby Dam	15,000	15,000	24,920	(9,920)
Other	26,588	26,588	26,588	-
Total culture and recreation	\$ 417,127	\$ 417,127	\$ 427,047	\$ (9,920)
Conservation of natural resources				
County extension	\$ 161,956	\$ 161,956	\$ 145,748	\$ 16,208
Soil and water conservation	260,405	260,405	260,405	-
Fairs	35,401	35,401	35,401	-
Total conservation of natural resources	\$ 457,762	\$ 457,762	\$ 441,554	\$ 16,208
Debt service				
Principal retirement	\$ -	\$ -	\$ 20,062	\$ (20,062)
Interest	-	-	1,426	(1,426)
Total Expenditures	\$ 17,340,503	\$ 17,653,883	\$ 16,538,480	\$ 1,115,403
Excess of Revenues Over (Under) Expenditures	\$ (367,320)	\$ (640,613)	\$ 1,437,782	\$ 2,078,395
Other Financing Sources (Uses)				
Transfers out	\$ (383,400)	\$ (383,400)	\$ (578,353)	\$ (194,953)
Proceeds from sale of capital assets	-	-	6,771	6,771
Total Other Financing Sources (Uses)	\$ (383,400)	\$ (383,400)	\$ (571,582)	\$ (188,182)
Net Change in Fund Balance	\$ (750,720)	\$ (1,024,013)	\$ 866,200	\$ 1,890,213
Fund Balance - January 1	9,637,499	9,637,499	9,637,499	-
Fund Balance - December 31	\$ 8,886,779	\$ 8,613,486	\$ 10,503,699	\$ 1,890,213

**GOODHUE COUNTY
RED WING, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,764,526	\$ 2,764,526	\$ 2,849,099	\$ 84,573
Licenses and permits	3,000	3,000	9,355	6,355
Intergovernmental	5,411,341	5,411,341	6,153,008	741,667
Charges for services	10,600	10,600	37,847	27,247
Miscellaneous	25,000	25,000	32,530	7,530
Total Revenues	\$ 8,214,467	\$ 8,214,467	\$ 9,081,839	\$ 867,372
Expenditures				
Current				
Highways and Streets				
Administration	\$ 356,817	\$ 356,817	\$ 363,238	\$ (6,421)
Maintenance	1,907,853	1,908,000	1,865,535	42,465
Construction	5,839,281	5,845,074	6,912,884	(1,067,810)
Equipment maintenance and shop	644,233	644,233	1,207,470	(563,237)
Total highways and streets	\$ 8,748,184	\$ 8,754,124	\$ 10,349,127	\$ (1,595,003)
Culture and recreation				
Parks	137,549	137,549	135,260	2,289
Intergovernmental				
Highways and streets	-	-	314,915	(314,915)
Total Expenditures	\$ 8,885,733	\$ 8,891,673	\$ 10,799,302	\$ (1,907,629)
Excess of Revenues Over (Under) Expenditures	\$ (671,266)	\$ (677,206)	\$ (1,717,463)	\$ (1,040,257)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ 5,940	\$ 441,573	\$ 435,633
Proceeds from sale of assets	-	-	2,500	2,500
Total Other Financing Sources (Uses)	\$ -	\$ 5,940	\$ 444,073	\$ 438,133
Net Change in Fund Balance	\$ (671,266)	\$ (671,266)	\$ (1,273,390)	\$ (602,124)
Fund Balance - January 1	4,946,898	4,946,898	4,946,898	-
Increase (decrease) in reserved for inventories	-	-	10,788	10,788
Fund Balance - December 31	\$ 4,275,632	\$ 4,275,632	\$ 3,684,296	\$ (591,336)

**GOODHUE COUNTY
RED WING, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,689,212	\$ 2,689,212	\$ 2,760,062	\$ 70,850
Intergovernmental	4,151,578	4,151,578	4,174,767	23,189
Charges for services	773,710	773,710	738,992	(34,718)
Gifts and contributions	20,000	20,000	-	(20,000)
Miscellaneous	393,335	393,335	472,343	79,008
Total Revenues	\$ 8,027,835	\$ 8,027,835	\$ 8,146,164	\$ 118,329
Expenditures				
Current				
Human Services				
Income maintenance	\$ 2,083,942	\$ 2,083,942	\$ 2,090,716	\$ (6,774)
Social services	5,943,893	5,943,893	6,038,019	(94,126)
Total Expenditures	\$ 8,027,835	\$ 8,027,835	\$ 8,128,735	\$ (100,900)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 17,429	\$ 17,429
Other Financing Sources (Uses)				
Transfers in	-	-	56,316	56,316
Net Change in Fund Balance	\$ -	\$ -	\$ 73,745	\$ 73,745
Fund Balance - January 1	3,236,871	3,236,871	3,236,871	-
Fund Balance - December 31	\$ 3,236,871	\$ 3,236,871	\$ 3,310,616	\$ 73,745

**GOODHUE COUNTY
RED WING, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the ISTS Well Loan Program Special Revenue Fund, which is not budgeted. 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 30, 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 31.

The appropriated budget is prepared by fund, function, and department. 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 Appropriations

For the year ended December 31, 2004, expenditures exceeded appropriations (the legal level of budgetary control) in the Road and Bridge and Human Services Special Revenue Funds by \$1,907,629 and \$100,900, respectively. These excess expenditures were funded by greater than anticipated revenues or transfers.

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SUPPLEMENTARY INFORMATION

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**GOODHUE COUNTY
RED WING, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,221,699	\$ 3,221,699	\$ 3,142,625	\$ (79,074)
Special assessments	8,254	8,254	14,984	6,730
Intergovernmental	-	-	5,812	5,812
Interest on investments	-	-	3,305	3,305
Total Revenues	\$ 3,229,953	\$ 3,229,953	\$ 3,166,726	\$ (63,227)
Expenditures				
Debt service				
Principal retirement	\$ 2,044,978	\$ 2,044,978	\$ 2,044,978	\$ -
Interest	1,184,975	1,184,975	913,479	271,496
Bond issuance costs	-	-	123,917	(123,917)
Advance refunding escrow	-	-	425,000	(425,000)
Total Expenditures	\$ 3,229,953	\$ 3,229,953	\$ 3,507,374	\$ (277,421)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (340,648)	\$ (340,648)
Other Financing Sources (Uses)				
Proceeds from refunding bonds	\$ -	\$ -	\$ 6,140,000	\$ 6,140,000
Payment to refunded bond escrow agent	-	-	(4,845,871)	(4,845,871)
Premium on bonds issued	-	-	32,201	32,201
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 1,326,330	\$ 1,326,330
Net Change in Fund Balance	\$ -	\$ -	\$ 985,682	\$ 985,682
Fund Balance - January 1	3,897,735	3,897,735	3,897,735	-
Fund Balance - December 31	\$ 3,897,735	\$ 3,897,735	\$ 4,883,417	\$ 985,682

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**GOODHUE COUNTY
RED WING, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

Individual Sewage Treatment Systems (ISTS) Well Loan Program - to account for the financial transactions arising from the loan program.

Land Use Management - to account for financial activities of planning and zoning and solid waste management.

Public Health - to account for the financial activities of the Public Health Department.

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

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**GOODHUE COUNTY
RED WING, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
DECEMBER 31, 2004**

	Economic Development Authority	ISTS Well Loan Program	Land Use Management	Public Health	Waste Management	Total
<u>Assets</u>						
Cash and pooled investments	\$ 90,050	\$ 115,555	\$ 601,336	\$ 685,929	\$ 481,141	\$ 1,974,011
Petty cash and change funds	-	-	-	2,300	-	2,300
Taxes receivable						
Prior	-	-	7,423	14,924	3,100	25,447
Accounts receivable	-	-	-	63,941	22,674	86,615
Due from other funds	-	-	-	62,831	-	62,831
Due from other governments	-	-	12,166	64,710	12,321	89,197
Loans receivable	5,878	40,768	-	-	-	46,646
Prepaid items	-	-	31	166	23	220
Restricted assets						
Cash and pooled investments	-	-	-	-	185,677	185,677
Total Assets	<u>\$ 95,928</u>	<u>\$ 156,323</u>	<u>\$ 620,956</u>	<u>\$ 894,801</u>	<u>\$ 704,936</u>	<u>\$ 2,472,944</u>
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ -	\$ -	\$ 2,582	\$ 10,189	\$ 21,800	\$ 34,571
Salaries payable	-	-	12,188	73,563	9,569	95,320
Due to other funds	-	-	10,581	47,980	9,356	67,917
Due to other governments	-	-	1,606	11,306	4,300	17,212
Deferred revenue - unavailable	5,878	40,768	5,620	38,580	2,387	93,233
Total Liabilities	<u>\$ 5,878</u>	<u>\$ 40,768</u>	<u>\$ 32,577</u>	<u>\$ 181,618</u>	<u>\$ 47,412</u>	<u>\$ 308,253</u>
Fund Balances						
Reserved for prepaid items	\$ -	\$ -	\$ 31	\$ 166	\$ 23	\$ 220
Unreserved						
Designated for petty cash	-	-	-	2,300	-	2,300
Designated for landfill closure	-	-	-	-	185,677	185,677
Undesignated	90,050	115,555	588,348	710,717	471,824	1,976,494
Total Fund Balances	<u>\$ 90,050</u>	<u>\$ 115,555</u>	<u>\$ 588,379</u>	<u>\$ 713,183</u>	<u>\$ 657,524</u>	<u>\$ 2,164,691</u>
Total Liabilities and Fund Balances	<u>\$ 95,928</u>	<u>\$ 156,323</u>	<u>\$ 620,956</u>	<u>\$ 894,801</u>	<u>\$ 704,936</u>	<u>\$ 2,472,944</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Economic Development Authority	ISTS Well Loan Program	Land Use Management	Public Health	Waste Management	Total
Revenues						
Taxes	\$ 1,000	\$ -	\$ 264,381	\$ 538,230	\$ 103,741	\$ 907,352
Licenses and permits	-	-	378,309	253,489	6,005	637,803
Intergovernmental	-	-	24,322	505,879	152,969	683,170
Charges for services	-	-	8,913	1,735,149	91,549	1,835,611
Gifts and contributions	-	-	-	71	-	71
Interest on investments	432	24	-	-	1,809	2,265
Miscellaneous	7,634	33,155	-	8,516	156,131	205,436
Total Revenues	\$ 9,066	\$ 33,179	\$ 675,925	\$ 3,041,334	\$ 512,204	\$ 4,271,708
Expenditures						
Current						
General government	\$ -	\$ -	\$ 596,797	\$ -	\$ -	\$ 596,797
Sanitation	-	5,547	-	-	677,980	683,527
Health	-	-	-	3,091,294	-	3,091,294
Economic development	19,435	-	-	-	-	19,435
Total Expenditures	\$ 19,435	\$ 5,547	\$ 596,797	\$ 3,091,294	\$ 677,980	\$ 4,391,053
Excess of Revenues Over (Under) Expenditures	\$ (10,369)	\$ 27,632	\$ 79,128	\$ (49,960)	\$ (165,776)	\$ (119,345)
Other Financing Sources (Uses)						
Transfers in	\$ -	\$ -	\$ 11,054	\$ 49,362	\$ 20,048	\$ 80,464
Proceeds from sale of capital assets	-	-	-	-	3,315	3,315
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 11,054	\$ 49,362	\$ 23,363	\$ 83,779
Net Change in Fund Balance	\$ (10,369)	\$ 27,632	\$ 90,182	\$ (598)	\$ (142,413)	\$ (35,566)
Fund Balance - January 1	100,419	87,923	498,197	713,781	799,937	2,200,257
Fund Balance - December 31	\$ 90,050	\$ 115,555	\$ 588,379	\$ 713,183	\$ 657,524	\$ 2,164,691

**GOODHUE COUNTY
RED WING, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT AUTHORITY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,000	\$ 1,000	\$ 1,000	\$ -
Charges for services	-	-	-	-
Interest on investments	-	-	432	432
Miscellaneous	-	-	7,634	7,634
Total Revenues	\$ 1,000	\$ 1,000	\$ 9,066	\$ 8,066
Expenditures				
Current				
Economic development	13,185	13,185	19,435	(6,250)
Excess of Revenues Over (Under)				
Expenditures	\$ (12,185)	\$ (12,185)	\$ (10,369)	\$ 1,816
Fund Balance - January 1	100,419	100,419	100,419	-
Fund Balance - December 31	\$ 88,234	\$ 88,234	\$ 90,050	\$ 1,816

**GOODHUE COUNTY
RED WING, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
LAND USE MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 257,279	\$ 257,279	\$ 264,381	\$ 7,102
Licenses and permits	281,800	281,800	378,309	96,509
Intergovernmental	24,980	24,980	24,322	(658)
Charges for services	8,000	8,000	8,913	913
Miscellaneous	100	100	-	(100)
Total Revenues	\$ 572,159	\$ 572,159	\$ 675,925	\$ 103,766
Expenditures				
Current				
General government				
Planning and zoning	572,159	606,159	596,797	9,362
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ (34,000)	\$ 79,128	\$ 113,128
Other Financing Sources (Uses)				
Transfers in	-	-	11,054	11,054
Net Change in Fund Balance	\$ -	\$ (34,000)	\$ 90,182	\$ 124,182
Fund Balance - January 1	498,197	498,197	498,197	-
Fund Balance - December 31	\$ 498,197	\$ 464,197	\$ 588,379	\$ 124,182

**GOODHUE COUNTY
RED WING, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
PUBLIC HEALTH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 543,828	\$ 543,828	\$ 538,230	\$ (5,598)
Licenses and permits	249,995	249,995	253,489	3,494
Intergovernmental	455,575	455,575	505,879	50,304
Charges for services	1,675,151	1,675,151	1,735,149	59,998
Gifts and contributions	-	-	71	71
Miscellaneous	82,089	82,089	8,516	(73,573)
Total Revenues	\$ 3,006,638	\$ 3,006,638	\$ 3,041,334	\$ 34,696
Expenditures				
Current				
Health				
Nursing service	\$ 1,347,048	\$ 1,347,048	\$ 1,322,944	\$ 24,104
Transportation	41,135	41,135	37,424	3,711
Maternal and child health	110,338	110,338	126,797	(16,459)
Health center	1,508,117	1,508,117	1,604,129	(96,012)
Total Expenditures	\$ 3,006,638	\$ 3,006,638	\$ 3,091,294	\$ (84,656)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (49,960)	\$ (49,960)
Other Financing Sources (Uses)				
Transfers in	-	-	49,362	49,362
Net Change in Fund Balance	\$ -	\$ -	\$ (598)	\$ (598)
Fund Balance - January 1	713,781	713,781	713,781	-
Fund Balance - December 31	\$ 713,781	\$ 713,781	\$ 713,183	\$ (598)

**GOODHUE COUNTY
RED WING, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
WASTE MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 99,802	\$ 99,802	\$ 103,741	\$ 3,939
Licenses and permits	5,800	5,800	6,005	205
Intergovernmental	94,234	94,234	152,969	58,735
Charges for services	61,400	61,400	91,549	30,149
Interest on investments	1,500	1,500	1,809	309
Miscellaneous	119,600	119,600	156,131	36,531
Total Revenues	\$ 382,336	\$ 382,336	\$ 512,204	\$ 129,868
Expenditures				
Current				
Sanitation				
Solid waste	\$ 54,160	\$ 54,160	\$ 52,985	\$ 1,175
Recycling	360,314	360,314	327,890	32,424
Hazardous waste	88,686	88,686	96,000	(7,314)
Landfill	164,020	164,020	201,105	(37,085)
Total Expenditures	\$ 667,180	\$ 667,180	\$ 677,980	\$ (10,800)
Excess of Revenues Over (Under) Expenditures	\$ (284,844)	\$ (284,844)	\$ (165,776)	\$ 119,068
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 20,048	\$ 20,048
Proceeds from sale of capital assets	-	-	3,315	3,315
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 23,363	\$ 23,363
Net Change in Fund Balance	\$ (284,844)	\$ (284,844)	\$ (142,413)	\$ 142,431
Fund Balance - January 1	799,937	799,937	799,937	-
Fund Balance - December 31	\$ 515,093	\$ 515,093	\$ 657,524	\$ 142,431

**GOODHUE COUNTY
RED WING, MINNESOTA**

AGENCY FUNDS

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

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

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

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**GOODHUE COUNTY
RED WING, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FAMILY COLLABORATIVE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 133,955	\$ 355,649	\$ 211,313	\$ 278,291
Due from other governments	78,280	111,074	78,280	111,074
Total Assets	<u>\$ 212,235</u>	<u>\$ 466,723</u>	<u>\$ 289,593</u>	<u>\$ 389,365</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 212,235</u>	<u>\$ 466,723</u>	<u>\$ 289,593</u>	<u>\$ 389,365</u>
 <u>TAXES AND PENALTIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 1,100,165</u>	<u>\$ 60,847,315</u>	<u>\$ 61,106,245</u>	<u>\$ 841,235</u>
<u>Liabilities</u>				
Unapportioned taxes	\$ -	\$ 31,394,436	\$ 31,394,436	\$ -
Due to component unit	2,517	7,656	9,999	174
Due to other governments	1,097,648	29,445,223	29,701,810	841,061
Total Liabilities	<u>\$ 1,100,165</u>	<u>\$ 60,847,315</u>	<u>\$ 61,106,245</u>	<u>\$ 841,235</u>
 <u>OTHER AGENCY FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 247,527	\$ 2,869,367	\$ 2,861,238	\$ 255,656
Departmental cash	103,460	24,966	103,460	24,966
Total Assets	<u>\$ 350,987</u>	<u>\$ 2,894,333</u>	<u>\$ 2,964,698</u>	<u>\$ 280,622</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 350,987</u>	<u>\$ 2,894,333</u>	<u>\$ 2,964,698</u>	<u>\$ 280,622</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,481,647	\$ 64,072,331	\$ 64,178,796	\$ 1,375,182
Departmental cash	103,460	24,966	103,460	24,966
Due from other governments	78,280	111,074	78,280	111,074
	<u>\$ 1,663,387</u>	<u>\$ 64,208,371</u>	<u>\$ 64,360,536</u>	<u>\$ 1,511,222</u>
<u>Liabilities</u>				
Unapportioned taxes	\$ -	\$ 31,394,436	\$ 31,394,436	\$ -
Due to component unit	2,517	7,656	9,999	174
Due to other governments	1,660,870	32,806,279	32,956,101	1,511,048
	<u>\$ 1,663,387</u>	<u>\$ 64,208,371</u>	<u>\$ 64,360,536</u>	<u>\$ 1,511,222</u>

BELLE CREEK WATERSHED COMPONENT UNIT

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**GOODHUE COUNTY
RED WING, MINNESOTA**

Statement 4

**STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
BELLE CREEK WATERSHED COMPONENT UNIT
DECEMBER 31, 2004**

	General Fund	Reconciliation	Statement of Net Assets
<u>Assets</u>			
Cash and pooled investments	\$ 207,296	\$ -	\$ 207,296
Accrued interest receivable	13,518	-	13,518
Due from primary government	174	-	174
Capital assets			
Non-depreciable	-	378,550	378,550
Total Assets	\$ 220,988	\$ 378,550	\$ 599,538
 <u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	\$ 220,988	\$ (220,988)	\$ -
Net Assets			
Invested in capital assets		\$ 378,550	\$ 378,550
Unrestricted		220,988	220,988
Total Net Assets		\$ 599,538	\$ 599,538
 Reconciliation of the Governmental Fund Balance to Net Assets			
Fund Balance - Governmental Fund			\$ 220,988
Capital assets are reported on the Statement of Net Assets but not in the fund balance sheet.			378,550
Net Assets - Governmental Activities			\$ 599,538

**GOODHUE COUNTY
RED WING, MINNESOTA**

Statement 5

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
BELLE CREEK WATERSHED COMPONENT UNIT
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General Fund</u>	<u>Reconciliation</u>	<u>Statement of Activities</u>
Revenues			
Taxes	\$ 10,331	\$ -	\$ 10,331
Investment earnings	5,251	-	5,251
Miscellaneous	6	-	6
Total Revenues	\$ 15,588	\$ -	\$ 15,588
Expenditures/Expenses			
Current			
General government	9,284	-	9,284
Excess of Revenues Over (Under)			
Expenditures/Expenses	\$ 6,304	\$ -	\$ 6,304
Fund Balance/Net Assets - January 1	214,684	378,550	593,234
Fund Balance/Net Assets - December 31	\$ 220,988	\$ 378,550	\$ 599,538

OTHER SCHEDULES

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**GOODHUE COUNTY
RED WING, MINNESOTA**

Schedule 9

TAX CAPACITY, TAX RATES, LEVIES AND PERCENTAGE OF COLLECTIONS

	2003		2004		2005	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real property	\$ 37,332,036		\$ 40,734,402		\$ 44,631,927	
Personal property	570,847		587,399		607,244	
Tax increment	(1,140,887)		(1,536,357)		(1,606,948)	
Net Tax Capacity	\$ 36,761,996		\$ 39,785,444		\$ 43,632,223	
Taxes Levied for County Purposes						
General	\$ 11,977,941	33.942	\$ 12,790,403	32.518	\$ 13,015,618	29.830
Road and bridge	3,032,689	8.250	2,995,796	7.530	3,008,398	6.895
County welfare	2,565,760	6.980	2,978,832	7.487	3,039,211	6.965
Public health service	582,597	1.585	580,243	1.458	707,177	1.621
Land use management	293,974	0.800	284,987	0.716	270,482	0.620
Debt service	3,512,350	9.556	3,221,699	8.893	3,010,402	6.899
Waste management	353,717	0.962	110,550	0.278	307,272	0.704
Total Levy for County Purposes	\$ 22,319,028	62.075	\$ 22,962,510	58.880	\$ 23,358,560	53.534
Tax Capacity Light and Power						
Transmission	\$ 40,694		\$ 41,962		\$ 43,576	
Distribution	5,642		5,814		6,034	
Total Tax Capacity Light and Power	\$ 46,336		\$ 47,776		\$ 49,610	
Light and Power Tax Levies (distributed in accordance with Minn. Stat. § 273.40, as amended)						
Transmission	\$ 57,385		\$ 55,132		\$ 52,404	
Distribution	7,956		7,640		7,256	
Total Light and Power Tax Levies	\$ 65,341	141.015	\$ 62,772	131.385	\$ 59,660	120.258

**GOODHUE COUNTY
RED WING, MINNESOTA**

*Schedule 9
(Continued)*

TAX CAPACITY, TAX RATES, LEVIES AND PERCENTAGE OF COLLECTIONS

	2003		2004		2005	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Market Value						
Light and Power						
Transmission	\$ 2,072,200		\$ 2,135,600		\$ 2,216,300	
Distribution	282,100		290,700		301,700	
Total Tax Capacity						
MV Light and Power	<u>\$ 2,354,300</u>		<u>\$ 2,426,300</u>		<u>\$ 2,518,000</u>	
Light and Power Tax						
Market Value Levies						
Transmission	\$ 321		\$ 2,036		\$ 2,454	
Distribution	44		278		334	
Total Light and Power						
MV Tax Levies	<u>\$ 365</u>	0.0155	<u>\$ 2,314</u>	0.09533	<u>\$ 2,788</u>	0.11074
Market Value						
State General Tax						
Transmission	\$ 40,694		\$ 41,962		\$ 43,576	
Distribution	5,642		5,814		6,034	
Total Tax Capacity						
MV State General Tax	<u>\$ 46,336</u>		<u>\$ 47,776</u>		<u>\$ 49,610</u>	
State General Tax						
Market Value Levies						
Transmission	\$ 22,157		\$ 22,706		\$ 22,660	
Distribution	3,072		3,146		3,138	
Total State General Tax						
MV Tax Levies	<u>\$ 25,229</u>	54.447	<u>\$ 25,852</u>	54.109	<u>\$ 25,798</u>	52.000
Special Assessments						
Belle Creek Watershed						
Improvement Bonds	<u>\$ 5,850</u>	0.546	<u>\$ 8,600</u>	0.698	<u>\$ 8,000</u>	0.542
Percentage of Tax Collections for All Purposes						
	99.98%		99.02%			

**GOODHUE COUNTY
RED WING, MINNESOTA**

Schedule 10

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Shared Revenue

State

Highway users tax	\$	5,163,859
PERA rate reimbursement		61,078
Disparity reduction aid		29,367
Police aid		179,183
Market value credit		1,378,878
Court administration aid		179,914
Indian casino aid		12,860
		12,860

Total Shared Revenue **\$ 7,005,139**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	2,565,663
		2,565,663

Payments in lieu of taxes **\$ 147,406**

Grants

State

Minnesota Department/Board of		
Administration	\$	63,388
Education		21,463
Corrections		289,057
Public Safety		132,006
Health		153,316
Natural Resources		147,437
Human Services		872,756
Soil and Water Resources		113,396
Office of Environmental Assistance		144,900
Peace Officer's Board		14,682
		14,682

Total State **\$ 1,952,401**

Local **\$ 15,000**

Federal

Department of		
Agriculture	\$	101,712
Justice		50,569
Transportation		762,360
Environmental Protection Agency		1,714
Health and Human Services		766,518
Homeland Security		99,474
		99,474

Total Federal **\$ 1,782,347**

Total Grants **\$ 3,749,748**

Total Intergovernmental Revenue **\$ 13,467,956**

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**GOODHUE COUNTY
RED WING, MINNESOTA**

Schedule 11

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Goodhue County.
- B. No matters involving internal control over financial reporting were reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*."
- C. No instances of noncompliance material to the financial statements of Goodhue County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Goodhue County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Temporary Assistance for Needy Families	CFDA #93.558
Social Services Block Grant Title XX	CFDA #93.667
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Goodhue County was determined to be a low-risk auditee.

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS RESOLVED

Insufficient Collateral to Secure Deposits (03-1)

At December 31, 2003, the deposits at First National Bank of Cannon Falls exceeded collateral by \$13,065. Security State Bank of Wanamingo's deposits exceeded collateral by \$39,622.

Resolution

At December 31, 2004, all County deposits had sufficient collateral to comply with state statutes.

Collateral Assignments (03-2)

The County is not complying with the collateral requirement set forth in Minn. Stat. § 118A.30, subd. 3, unless it obtains an enforceable assignment of pledged collateral. To obtain an enforceable assignment under federal law (12 U.S.C. §1823(e)), the County must obtain a written assignment of collateral which is approved by the depository bank's Board of Directors or loan committee and is a continuous official record of the bank.

Resolution

For the banks not in compliance at December 31, 2003, the County was able to produce documentation of compliance with federal law.

B. OTHER ITEM FOR CONSIDERATION

Governmental Accounting Standards Board

Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, is effective for periods beginning after June 15, 2004. This statement encourages governmental entities to implement an investment policy regarding credit risk, which is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County will also be required under this Statement to disclose its interest rate risk, which is the potential variability in fair value resulting from changes in interest rates.

In anticipation of implementing GASB Statement 40, we recommend that the County address the issues noted above.

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OTHER REQUIRED REPORTS

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

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

Goodhue County
Board of County Commissioners

We have audited the financial statements of Goodhue County as of and for the year ended December 31, 2004, and have issued our report thereon dated August 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Goodhue County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

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

This report is intended solely for the information and use of the Board of Commissioners and management and is not intended to be and should not be used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 11, 2005



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PATRICIA ANDERSON
STATE AUDITOR

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Goodhue County

Compliance

We have audited the compliance of Goodhue County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. Goodhue County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Goodhue County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of Goodhue County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Goodhue County as of and for the year ended December 31, 2004, and have issued our report thereon dated August 11, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 11, 2005

**GOODHUE COUNTY
RED WING, MINNESOTA**

Schedule 12

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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	\$ 95,426
Passed Through Minnesota Department of Human Services Matching Grants for Food Stamp Program	10.561	6,286
Total U.S. Department of Agriculture		\$ 101,712
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Juvenile Accountability Incentive Block Grant	16.523	\$ 9,467
Direct		
Bulletproof Vest Partnership Program	16.607	4,436
Community Prosecution and Project Safe Neighborhoods	16.609	36,666
Total U.S. Department of Justice		\$ 50,569
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 762,360
Environmental Protection Agency		
Passed Through Minnesota Department of Health State Indoor Radon Grants	66.032	\$ 1,714
U.S. Department of Health and Human Services		
Passed Through Southeastern Minnesota Area on Aging Title III-B Special Programs for the Aging	93.044	\$ 7,487
Passed Through Minnesota Department of Health Immunization Grants	93.268	2,050
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	63,629
Maternal and Child Health Services Block Grant	93.994	44,616

**GOODHUE COUNTY
RED WING, MINNESOTA**

*Schedule 12
(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	8,625
Temporary Assistance for Needy Families	93.558	202,627
Child Care Mandatory and Matching Funds	93.596	22,044
Child Welfare Services - State Grants	93.645	3,214
Foster Care Title IV-E	93.658	107,539
Social Services Block Grant Title XX	93.667	252,593
Chafee Foster Care Independent Living	93.674	15,378
Medical Assistance	93.778	32,384
Block Grant - Community Mental Health Services	93.958	7,546
Total U.S. Department of Health and Human Services		\$ 769,732
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program	97.004	\$ 58,705
Emergency Management Performance Grants	97.042	30,412
State and Local All Hazards Emergency Operations Planning	97.051	2,857
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	7,500
Total U.S. Department of Homeland Security		\$ 99,474
Total Federal Awards		\$ 1,785,561

Notes to Schedule of Expenditures of Federal Awards

1. 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. The expenditures on this schedule are on the modified accrual basis of accounting. Due to revenue recognition principles of modified accrual, expenditures for CFDA No. 93.645 differ by \$3,214 from the revenues reported.
3. Pass-through grant numbers were not assigned by the pass-through agencies.