

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

HOUSTON COUNTY
CALEDONIA, MINNESOTA

YEAR ENDED DECEMBER 31, 2010

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

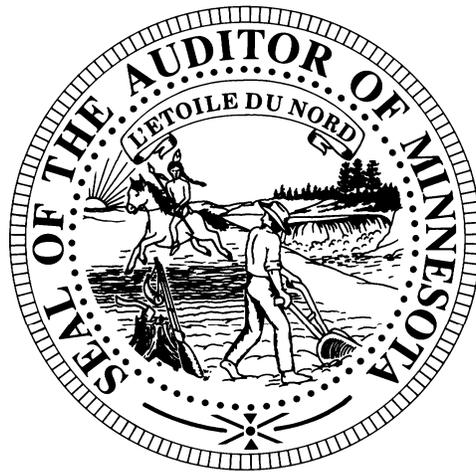
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

Year Ended December 31, 2010



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

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2010**

			<u>Term Expires</u>
Elected			
Commissioners			
Board Member	Jack Miller ¹	District 1	January 2013
Chair	Larry Connery	District 2	January 2011
Board Member	Robert Augedahl	District 3	January 2013
Vice Chair	David Corcoran	District 4	January 2011
Board Member	Thomas Bjerke ²	District 5	January 2013
Attorney	Suzanne Bublitz ³		January 2011
Auditor	Char Meiners ³		January 2011
County Recorder	Beverly Bauer		January 2011
County Sheriff	Doug Ely		January 2011
District Judge	James Fabian		January 2014
Treasurer	Audrey M. Petersen		January 2011
Appointed			
Assessor	Thomas Dybing		December 2012
County Engineer	Brian Pogodzinski		April 2013
Coroner	Regional Medical Center		Indefinite
Court Administrator	Darlene Kuhlers		Indefinite
Finance Director	Casey Bradley		Indefinite
Human Services Director	Beth Wilms		Indefinite
Public Health Nurse	Debra Rock		Indefinite
Veterans Service Officer	Robert Gross		December 2011

¹Chair 2011

²Vice Chair 2011

³Interim Appointment

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Houston County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houston County, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Houston County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Houston County as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2011, on our consideration of Houston County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(Unaudited)**

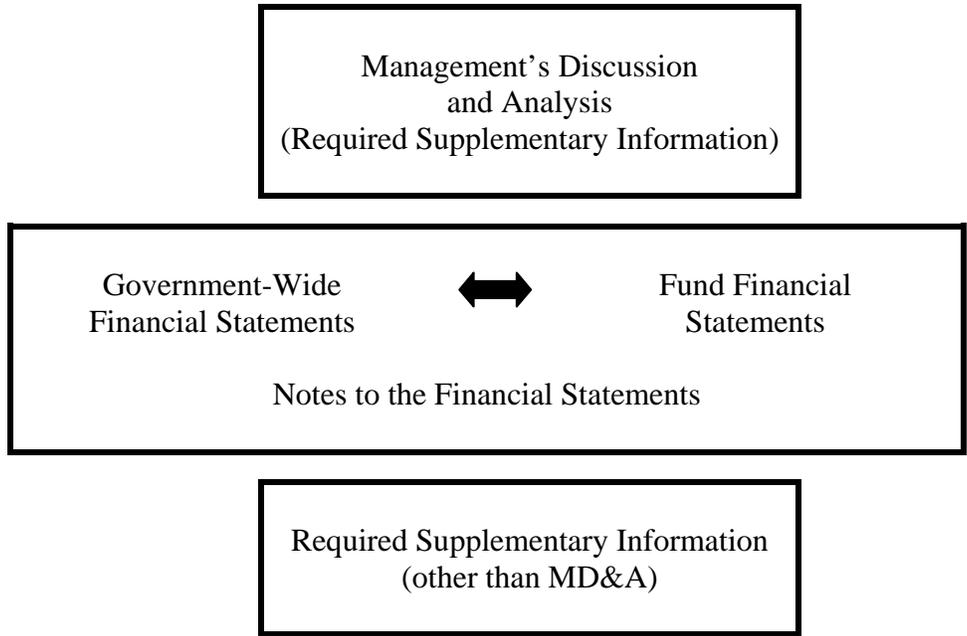
Houston County's discussion and analysis provides an overview of the County's financial activities for the fiscal year ended December 31, 2010. Since this information is designed to focus on current year activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$72,467,272, of which \$56,464,958 is invested in capital assets and \$14,668,640 is restricted to specific purposes.
- Houston County's net assets increased by \$4,490,356 for the year ended December 31, 2010.
- The net cost of governmental activities for the current fiscal year was \$6,662,481. The net cost was funded by general revenues, including taxes and grants.
- Governmental funds' fund balances increased by \$2,074,555.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements. Houston 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. Government-wide financial statements start on page 11. 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 an 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 is shown on 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 nonfinancial 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.

The Statement of Activities presents information showing how the County's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future years. The activities of Houston County are presented as governmental activities because they are principally supported by taxes and intergovernmental revenues. The County's basic services are reported here, including general government, public safety, transportation, sanitation, human services, culture and recreation, conservation of natural resources, and economic development.

Fund Financial Statements

Our analysis of the County's major funds begins on page 13. 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. 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.

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.

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or fiduciary, over assets that can be used only by other governments, nonprofits, or individuals. All of the County's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations.

THE COUNTY AS A WHOLE

The County's net assets increased from \$67,976,916 to \$72,467,272.

Table 1
Net Assets
(in Millions)

	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 32.9	\$ 30.6
Capital assets	<u>66.5</u>	<u>56.2</u>
Total Assets	<u>\$ 99.4</u>	<u>\$ 86.8</u>
Long-term debt outstanding	\$ 19.0	\$ 11.9
Other liabilities	<u>7.9</u>	<u>6.9</u>
Total Liabilities	<u>\$ 26.9</u>	<u>\$ 18.8</u>
Net Assets		
Invested in capital assets	\$ 56.5	\$ 54.0
Restricted	14.7	6.0
Unrestricted	<u>1.3</u>	<u>8.0</u>
Total Net Assets	<u>\$ 72.5</u>	<u>\$ 68.0</u>

Net assets of the County's governmental activities increased by 6.6 percent (\$72,467,272 compared to \$67,976,916).

Table 2
Changes in Net Assets
(in Millions)

	<u>2010</u>	<u>2009</u>
Revenues		
Program revenues		
Fees, fines, charges, and other	\$ 2.6	\$ 2.4
Operating grants and contributions	9.7	10.6
Capital grants and contributions	2.0	-
General revenues		
Property taxes	8.3	7.9
Other taxes and payments in lieu of taxes	0.5	0.4
Grants and contributions	1.8	2.0
Other general revenues	<u>0.6</u>	<u>0.6</u>
Total Revenues	<u>\$ 25.5</u>	<u>\$ 23.9</u>

	<u>2010</u>	<u>2009</u>
Program expenses		
General government	\$ 3.5	\$ 3.7
Public safety	3.5	3.0
Transportation	6.4	6.6
Human services	3.9	4.3
Health	1.7	1.6
Sanitation	0.8	0.8
Culture and recreation	0.3	0.3
Conservation of natural resources	0.3	0.4
Economic development	0.2	0.1
Interest	<u>0.4</u>	<u>0.3</u>
 Total Program Expenses	 <u>\$ 21.0</u>	 <u>\$ 21.1</u>
 Increase (Decrease) in Net Assets	 <u><u>\$ 4.5</u></u>	 <u><u>\$ 2.8</u></u>

Governmental Activities

The cost of all governmental activities this year was \$20,996,051. However, as shown in the Statement of Activities, the amount that the taxpayers ultimately financed for these activities through County property taxes was only \$8,304,374, because some of the cost was paid by those who directly benefited from the programs (\$2,592,444) or by other governments and organizations that subsidized certain programs with grants and contributions (\$11,741,126). The County paid for the remaining “public benefit” portion of governmental activities with \$11,152,837 in general revenues, primarily property taxes and other revenues, such as interest and general entitlements, resulting in an increase to net assets of \$4,490,356.

Table 3 presents the cost of each of the County’s four 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
(in Millions)

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Transportation	\$ 6.4	\$ 6.6	\$ (1.5)	\$ -
Human services	3.9	4.3	1.0	1.3
General government	3.5	3.7	2.6	3.0
Public safety	3.5	3.0	2.8	2.5

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, Houston County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the County's funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a county's net resources available for spending at the end of the year.

At December 31, 2010, Houston County's governmental funds reported combined ending fund balances of \$19,683,053, an increase of \$2,074,555 in comparison with 2009. The County is reporting an undesignated fund balance of \$2,144,201 in 2010. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed.

The General Fund is the chief operating fund of Houston County. At December 31, 2010, unreserved, undesignated fund balance was \$463,963, while total fund balance was \$5,952,824. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 4.4 percent of total General Fund expenditures, while total fund balance represents 56.6 percent of the same amount.

The Road and Bridge Special Revenue Fund's fund balance increased by \$2,048,361 to \$3,724,615, of which \$970,648, or 26.06 percent, is unreserved, undesignated fund balance. The Social Services Special Revenue Fund's fund balance increased by \$6,841 to \$1,334,388, of which \$681,078, or 51.04 percent, is unreserved, undesignated.

General Fund Budgetary Highlights

Houston County revised its General Fund budget during 2010, increasing both expected revenues and appropriations by 6.4 and 3.9 percent, respectively. For the year ended December 31, 2010, expenditures were less than final budget by \$188,641.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the County had \$66,489,207 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of \$10,319,753, or 18.3 percent, over last year.

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

	2010	2009
Land	\$ 3.0	\$ 2.9
Construction in progress	13.4	2.7
Buildings and improvements	2.3	2.2
Machinery, vehicles, furniture, and equipment	2.7	2.9
Infrastructure	45.1	45.5
Totals	\$ 66.5	\$ 56.2

This year's major addition was finalization of design and commencement of construction of a new Justice Center.

Debt

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

	Governmental Activities	
	2010	2009
G. O. bonds	\$ 17.9	\$ 10.1
Capital notes	0.5	0.7
Totals	\$ 18.4	\$ 10.8

CONTACTING HOUSTON COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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 Finance Director, Casey Bradley, Houston County Courthouse, 304 South Marshall Street, Caledonia, Minnesota 55921.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

Assets

Cash and pooled investments	\$	20,609,755
Petty cash and change funds		17,035
Investments		3,007,137
Taxes receivable		
Prior - net		214,151
Accounts receivable - net		174,632
Accrued interest receivable		22,528
Loan receivable		1,409,786
Due from other governments		6,692,631
Inventories		655,080
Prepaid items		5,512
Restricted assets		
Cash and pooled investments		68,775
Accrued interest receivable		88
Capital assets		
Non-depreciable		16,410,312
Depreciable - net of accumulated depreciation		50,078,895
		\$ 99,366,317
Total Assets	\$	99,366,317

Liabilities

Accounts payable	\$	504,758
Salaries payable		311,577
Contracts payable		1,657,569
Due to other governments		178,116
Accrued interest payable		157,798
Unearned revenue		1,083,706
Customer deposits		8,547
Advance from other governments		3,515,475
Long-term liabilities		
Due within one year		454,245
Due in more than one year		19,027,254
		\$ 26,899,045
Total Liabilities	\$	26,899,045

Net Assets

Invested in capital assets, net of related debt	\$	56,464,958
Restricted for		
General government		348,748
Public safety		451,781
Debt service		484,606
Capital projects		8,403,203
Highways and streets		4,429,992
Economic development		550,310
Unrestricted		1,333,674
		\$ 72,467,272
Total Net Assets	\$	72,467,272

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

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

		Program Revenues				
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions		Net (Expense) Revenues and Change in Net Assets	
<u>Functions/Programs</u>						
Primary government						
Governmental activities						
General government	\$ 3,463,424	\$ 398,200	\$ 438,646	\$ -	\$ (2,626,578)	
Public safety	3,520,035	108,587	633,093	-	(2,778,355)	
Transportation	6,381,385	282,756	5,585,345	2,017,266	1,503,982	
Sanitation	812,604	455,602	60,636	-	(296,366)	
Human services	3,882,518	347,487	2,573,153	-	(961,878)	
Health	1,721,818	950,221	432,109	-	(339,488)	
Culture and recreation	274,760	29,486	-	-	(245,274)	
Conservation of natural resources	309,719	1,332	-	-	(308,387)	
Economic development	199,819	18,773	878	-	(180,168)	
Interest	429,969	-	-	-	(429,969)	
Total Governmental Activities	<u>\$ 20,996,051</u>	<u>\$ 2,592,444</u>	<u>\$ 9,723,860</u>	<u>\$ 2,017,266</u>	<u>\$ (6,662,481)</u>	
General Revenues						
Property taxes				\$ 8,304,374		
Mortgage registry and deed tax				13,160		
Other taxes				146,363		
Payments in lieu of tax				296,047		
Grants and contributions not restricted to specific programs				1,761,983		
Unrestricted investment earnings				244,021		
Miscellaneous				385,839		
Gain on sale of capital assets				1,050		
Total general revenues				<u>\$ 11,152,837</u>		
Change in net assets				<u>\$ 4,490,356</u>		
Net Assets - Beginning				<u>67,976,916</u>		
Net Assets - Ending				<u>\$ 72,467,272</u>		

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
<u>Assets</u>						
Cash and pooled investments	\$ 4,713,456	\$ 5,123,372	\$ 802,895	\$ 235,009	\$ 9,735,023	\$ 20,609,755
Petty cash and change funds	16,935	100	-	-	-	17,035
Investments	979,187	1,527,950	500,000	-	-	3,007,137
Taxes receivable						
Prior	133,988	50,423	19,519	10,221	-	214,151
Accounts receivable	79,559	1,246	93,827	-	-	174,632
Loans receivable	1,409,786	-	-	-	-	1,409,786
Accrued interest receivable	13,939	4,976	723	-	2,890	22,528
Due from other funds	279,149	147,208	-	165,098	31,236	622,691
Due from other governments	290,781	6,068,030	333,820	-	-	6,692,631
Prepaid expense	5,512	-	-	-	-	5,512
Inventories	-	655,080	-	-	-	655,080
Restricted cash and pooled investments	68,775	-	-	-	-	68,775
Restricted accrued interest receivable	88	-	-	-	-	88
Total Assets	<u>\$ 7,991,155</u>	<u>\$ 13,578,385</u>	<u>\$ 1,750,784</u>	<u>\$ 410,328</u>	<u>\$ 9,769,149</u>	<u>\$ 33,499,801</u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 166,285	\$ 159,425	\$ 179,048	\$ -	\$ -	\$ 504,758
Salaries payable	203,875	56,872	50,830	-	-	311,577
Contracts payable	-	293,995	-	-	1,363,574	1,657,569
Due to other funds	343,542	142,563	-	136,586	-	622,691
Due to other governments	90,483	4,835	80,426	-	2,372	178,116
Deferred revenue - unavailable	201,822	5,680,605	46,163	5,719	-	5,934,309
Deferred revenue - unearned	1,023,777	-	59,929	-	-	1,083,706
Customer deposits	8,547	-	-	-	-	8,547
Advance from other governments	-	3,515,475	-	-	-	3,515,475
Total Liabilities	\$ 2,038,331	\$ 9,853,770	\$ 416,396	\$ 142,305	\$ 1,365,946	\$ 13,816,748
Fund Balances						
Reserved for						
Debt service	\$ 245,095	\$ -	\$ -	\$ 239,511	\$ -	\$ 484,606
Loans receivable	425,794	-	-	-	-	425,794
Inventories	-	655,080	-	-	-	655,080
Prepaid items	5,512	-	-	-	-	5,512
Sheriff's forfeited property	14,654	-	-	-	-	14,654
Attorney's forfeited property	395	-	-	-	-	395
Sheriff's permit to carry	34,976	-	-	-	-	34,976
Highway projects	-	36,282	-	-	-	36,282
Capital projects	-	-	-	-	8,403,203	8,403,203
Recorder's equipment purchases	192,110	-	-	-	-	192,110
Recorder's unallocated fund	156,243	-	-	-	-	156,243
Enhanced 911	402,151	-	-	-	-	402,151
Economic development	124,516	-	-	-	-	124,516
Unreserved						
Designated for future expenditures	69,106	600,000	-	-	-	669,106
Designated for cash flows	3,202,584	1,265,991	514,607	-	-	4,983,182
Designated for compensated absences	615,725	196,614	138,703	-	-	951,042
Undesignated	463,963	970,648	681,078	28,512	-	2,144,201
Total Fund Balances	\$ 5,952,824	\$ 3,724,615	\$ 1,334,388	\$ 268,023	\$ 8,403,203	\$ 19,683,053
Total Liabilities and Fund Balances	\$ 7,991,155	\$ 13,578,385	\$ 1,750,784	\$ 410,328	\$ 9,769,149	\$ 33,499,801

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

Fund balances - total governmental funds (Exhibit 3)		\$ 19,683,053
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.		66,489,207
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		5,934,309
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Loans payable	\$ (42,000)	
Capital notes payable	(485,000)	
Capital note discount	6,000	
Bonds payable	(17,870,000)	
Bond discount	50,930	
Bond premium	(91,632)	
Accrued interest payable	(157,798)	
Net OPEB obligation	(98,754)	
Compensated absences	(951,043)	
	<u> </u>	<u>(19,639,297)</u>
Net Assets of Governmental Activities (Exhibit 1)		<u><u>\$ 72,467,272</u></u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	General	Road and Bridge
Revenues		
Taxes	\$ 5,309,190	\$ 2,118,546
Licenses and permits	46,210	1,435
Intergovernmental	2,902,586	8,535,881
Charges for services	1,873,847	112,843
Fines and forfeits	35,672	-
Gifts and contributions	5,788	-
Investment earnings	131,843	56,950
Miscellaneous	422,534	5,756
	\$ 10,727,670	\$ 10,831,411
Expenditures		
Current		
General government	\$ 3,565,709	\$ -
Public safety	3,414,799	-
Transportation	-	8,736,104
Sanitation	796,768	-
Human services	-	-
Health	1,701,852	-
Culture and recreation	273,669	-
Conservation of natural resources	309,823	-
Economic development	175,028	-
Capital outlay	-	-
Debt service		
Principal	272,210	132,790
Interest	13,357	9,773
Bond issuance costs	-	-
Administrative (fiscal) charges	-	-
	\$ 10,523,215	\$ 8,878,667
Excess of Revenues Over (Under Expenditures)	\$ 204,455	\$ 1,952,744
Other Financing Sources (Uses)		
General obligation bonds issued	\$ -	\$ -
Discount on bonds/notes issued	-	-
Proceeds from sale of capital assets	1,050	-
	\$ 1,050	\$ -
Change in Fund Balance	\$ 205,505	\$ 1,952,744
Fund Balance - January 1	5,747,319	1,676,254
Increase (decrease) in reserved for inventories	-	95,617
	\$ 5,952,824	\$ 3,724,615
Fund Balance - December 31	\$ 5,952,824	\$ 3,724,615

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

EXHIBIT 5

<u>Social Services</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
\$ 765,081	\$ 261,703	\$ -	\$ 8,454,520
-	-	-	47,645
2,748,824	963	-	14,188,254
276,009	-	-	2,262,699
-	-	-	35,672
-	-	-	5,788
9,771	-	45,457	244,021
46,686	-	-	474,976
<u>\$ 3,846,371</u>	<u>\$ 262,666</u>	<u>\$ 45,457</u>	<u>\$ 25,713,575</u>
\$ -	\$ -	\$ -	\$ 3,565,709
-	-	-	3,414,799
-	-	-	8,736,104
-	-	-	796,768
3,839,530	-	-	3,839,530
-	-	-	1,701,852
-	-	-	273,669
-	-	-	309,823
-	-	-	175,028
-	-	8,033,885	8,033,885
-	-	-	405,000
-	242,556	-	265,686
-	-	76,224	76,224
-	5,680	-	5,680
<u>\$ 3,839,530</u>	<u>\$ 248,236</u>	<u>\$ 8,110,109</u>	<u>\$ 31,599,757</u>
<u>\$ 6,841</u>	<u>\$ 14,430</u>	<u>\$ (8,064,652)</u>	<u>\$ (5,886,182)</u>
\$ -	\$ -	\$ 7,915,000	\$ 7,915,000
-	-	(50,930)	(50,930)
-	-	-	1,050
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,864,070</u>	<u>\$ 7,865,120</u>
<u>\$ 6,841</u>	<u>\$ 14,430</u>	<u>\$ (200,582)</u>	<u>\$ 1,978,938</u>
1,327,547	253,593	8,603,785	17,608,498
-	-	-	95,617
<u>\$ 1,334,388</u>	<u>\$ 268,023</u>	<u>\$ 8,403,203</u>	<u>\$ 19,683,053</u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 1,978,938

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

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

Deferred revenue - December 31	\$ 5,934,309	
Deferred revenue - January 1	<u>(6,211,385)</u>	(277,076)

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

Expenditures for general capital assets and infrastructure	\$ 12,375,858	
Net book value of assets disposed	(142,311)	
Current year depreciation	<u>(1,913,794)</u>	10,319,753

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

Proceeds of new debt		
General obligation bonds issued	\$ (7,915,000)	
Discount on notes issued	50,930	
Principal repayments		
General obligation bonds	405,000	
Current year amortization of discounts and premiums	<u>5,478</u>	(7,453,592)

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 compensated absences	\$ (53,252)	
Change in accrued interest payable	(87,857)	
Change in net OPEB obligation	(32,175)	
Change in inventories	<u>95,617</u>	<u>(77,667)</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 4,490,356

FIDUCIARY FUNDS

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2010**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 1,594,863</u>
<u>Liabilities</u>	
Accounts payable	\$ 129,627
Due to other governments	<u>1,465,236</u>
Total Liabilities	<u><u>\$ 1,594,863</u></u>

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2010. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Houston County was established February 23, 1854, 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 Houston County (primary government) and its component unit for which the County is financially accountable. 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 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. Houston County has one blended component unit, which is reported as part of the General Fund.

Component Unit	Component Unit Included in Reporting Entity Because	Separate Financial Statements
Houston County Economic Development Authority (EDA) provides for development within the County.	County Commissioners are the members of the EDA Board.	Separate financial statements are not prepared.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in a joint venture described in Note 4.E. The County also participates in jointly-governed organizations described in Note 4.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government and its 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. Governmental activities are normally supported by taxes and intergovernmental revenues.

The government-wide statement of net assets is presented on a consolidated basis by column 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.

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds and blended component unit. Separate statements for each fund category--governmental and fiduciary--are presented.

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

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

The Capital Projects Fund is used to account for the financial resources to be used for the construction of the Criminal Justice Center.

The County reports the following fund type:

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide 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. Houston County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of 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 and then unrestricted resources as needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2010, 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 2010 were \$131,843.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are 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 to indicate they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectibles.

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

3. Inventories and Prepaid Items

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Property, plant, and equipment of the County are depreciated using the straight-line method over the following estimated useful lives:

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

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation 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.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Deferred Revenue

All County funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

7. Long-Term Obligations

In the government-wide statement of net assets, 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 straight-line 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 another financing source. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. 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 subject to change.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. 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.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of the County's total cash and investments to the basic financial statements follows:

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 20,609,755
Petty cash and change funds	17,035
Investments	3,007,137
Restricted cash	68,775
Statement of fiduciary net assets	
Cash and pooled investments	<u>1,594,863</u>
 Total Cash and Investments	 <u>\$ 25,297,565</u>

a. Deposits

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2010, the County does not have any deposits exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. It is the County's policy to minimize interest rate risk by: (1) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market prior to maturity; and (2) investing operating funds, when most prudent, in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the County's cash requirements.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Interest Rate Risk (Continued)

Investment Type	Fair Value	Less Than 1 Year	2 – 3 Years	3 - 13 Years
Federal Home Loan Bank	\$ 25,841	\$ 25,841	\$ -	\$ -
Freddie Mac	201,078	-	-	201,078
Fannie Mae	42,315	-	-	42,315
Negotiable certificates of deposit	2,133,357	294,925	723,157	1,115,275
Total Investments	\$ 2,402,591	\$ 320,766	\$ 723,157	\$ 1,358,668

Credit Risk

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

The County is required to disclose the credit quality ratings of investments in debt securities, external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed income securities. Houston County invests in the following investment pools/mutual funds:

	Credit Rating	Rating Agency	Fair Value
Federal Home Loan Bank	AAA	Standard & Poor's	\$ 25,841
Federal National Mortgage Association	AAA	Standard & Poor's	42,315
Freddie Mac	AAA	Standard & Poor's	201,078

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County's policy is to minimize custodial credit risk by limiting investments with any one broker to no more than ten percent of its Securities Investor Protection Corporation (SIPC) coverage plus any excess coverage if provided. At December 31, 2010, none of Houston County's investments were subject to custodial credit risk.

Concentration of Credit Risk

It is the County's policy to minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. This will be based on the applicable opinion units. Investments in any one issuer that represent five percent or more of the County's investments are as follows:

Issuer	Percent of Total Investments	Reported Amount
Freddie Mac	8.37%	\$ 201,078

2. Receivables

Receivables as of December 31, 2010, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Accounts receivable, gross	\$ 588,232
Less: allowance for uncollectible	(413,600)
Net Accounts Receivable	\$ 174,632

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

The loans receivable balance of \$1,409,786 includes \$1,382,482, which is not scheduled for collection in the subsequent year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,091,358	\$ 54,615	\$ -	\$ 1,145,973
Land - infrastructure right-of-way	1,556,161	22,160	-	1,578,321
Land improvements	251,088	-	-	251,088
Construction in progress - infrastructure	2,665,051	11,898,803	1,128,924	13,434,930
Total capital assets not depreciated	\$ 5,563,658	\$ 11,975,578	\$ 1,128,924	\$ 16,410,312
Capital assets depreciated				
Buildings	\$ 1,794,365	\$ -	\$ -	\$ 1,794,365
Building improvements	1,405,670	117,240	-	1,522,910
Other improvements	353,481	45,460	-	398,941
Machinery, furniture, and equipment	4,996,931	237,580	131,240	5,103,271
Infrastructure	83,698,502	1,128,924	354,820	84,472,606
Total capital assets depreciated	\$ 92,248,949	\$ 1,529,204	\$ 486,060	\$ 93,292,093
Less: accumulated depreciation for				
Buildings	\$ 764,976	\$ 34,588	\$ -	\$ 799,564
Building improvements	566,806	28,699	-	595,505
Other improvements	63,707	8,281	-	71,988
Machinery, furniture, and equipment	2,062,208	433,043	121,581	2,373,670
Infrastructure	38,185,456	1,409,183	222,168	39,372,471
Total accumulated depreciation	\$ 41,643,153	\$ 1,913,794	\$ 343,749	\$ 43,213,198
Total capital assets depreciated, net	\$ 50,605,796	\$ (384,590)	\$ 142,311	\$ 50,078,895
Governmental Activities Capital Assets, Net	<u>\$ 56,169,454</u>	<u>\$ 11,590,988</u>	<u>\$ 1,271,235</u>	<u>\$ 66,489,207</u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities		
General government	\$	88,887
Public safety		76,294
Highways and streets, including depreciation of infrastructure assets		1,714,625
Sanitation		19,774
Culture and recreation		1,091
Economic development		13,123
Total Depreciation Expense - Governmental Activities	\$	1,913,794

B. Liabilities

1. Loans Payable

Houston County received a grant of \$142,000 from the Minnesota Department of Employment and Economic Development. The County used the grant to make an installment loan to fund an economic development project in the County. The County is entitled to the first \$100,000 of principal and interest repayments, and the remaining \$42,000 is to be repaid to the state. Payments on the state loan are deferred until December 2012 when monthly payments of \$1,205, including interest at 6.0 percent, will be made until March 2016. Total payments due from 2012 to 2016, including interest of \$4,265 at December 31, 2010, are \$46,265. The loan payments will be made in the General Fund.

Loans payable requirements at December 31, 2010, were as follows:

Year Ending December 31	State Loan	
	Principal	Interest
2012	\$ 24	\$ 5
2013	12,276	2,185
2014	13,033	1,427
2015	13,837	624
2016	2,830	24
Total	\$ 42,000	\$ 4,265

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

B. Liabilities (Continued)

2. Bonded Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2010
General obligation bonds and notes					
2009A G.O. Capital Obligation Notes	2012	\$257,937 - \$250,390	1.80 - 2.20	\$ 730,000	\$ 485,000
2009 B G.O. Capital Improvement Plan Bonds	2019	\$178,793 - \$462,144	2.00- 3.25	2,865,000	2,705,000
2009 C G.O. Jail Bonds	2030	\$66,717 - \$821,600	3.00- 4.00	7,250,000	7,250,000
2010A G.O. Capital Improvement Plan Bonds	2022	\$74,534 - \$441,585	1.05 - 3.45	2,695,000	2,695,000
2010 B G.O. Jail Bonds	2031	\$214,006 - \$1,396,950	4.00 - 4.25	5,220,000	5,220,000
Total General Obligation Bonds and Notes				<u>\$ 18,760,000</u>	<u>\$ 18,355,000</u>

3. Debt Service Requirements

Debt service requirements at December 31, 2010, were as follows:

Year Ending December 31	General Obligation Capital Notes	
	Principal	Interest
2011	\$ 240,000	\$ 7,790
2012	245,000	2,695
Total	<u>\$ 485,000</u>	<u>\$ 10,485</u>

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2011	\$ 165,000	\$ 503,870
2012	165,000	598,156
2013	485,000	593,200
2014	490,000	585,774
2015	585,000	576,241
2016 - 2020	3,630,000	2,625,759
2021 - 2025	5,020,000	1,921,071
2026 - 2030	5,990,000	900,591
2031	1,340,000	28,475
Total	<u>\$ 17,870,000</u>	<u>\$ 8,333,137</u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

B. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
2009 A G.O. Capital Notes	\$ 730,000	\$ -	\$ 245,000	\$ 485,000	\$ 240,000
2009 B G.O. Capital Improvement Plan Bonds	2,865,000	-	160,000	2,705,000	165,000
2009 C G.O. Jail Bonds	7,250,000	-	-	7,250,000	-
2010 A G.O. Capital Improvement Plan Bonds	-	2,695,000	-	2,695,000	-
2010 B G.O. Jail Bonds	-	5,220,000	-	5,220,000	-
Premium on bonds	100,110	-	8,478	91,632	-
Less: discount on bonds	(9,000)	(50,930)	(3,000)	(56,930)	-
Total bonds payable	\$ 10,936,110	\$ 7,915,000	\$ 405,000	\$ 18,389,702	\$ 405,000
Loans payable	42,000	-	-	42,000	-
Compensated absences	897,791	53,252	-	951,043	49,245
Net OPEB obligation	66,579	54,101	21,926	98,754	-
Long-Term Liabilities	\$ 11,942,480	\$ 8,022,353	\$ 426,926	\$ 19,481,499	\$ 454,245

3. Employee Retirement Systems and Pension Plans

A. Plan Description

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

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

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

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

For all General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.40 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2010:

	2010
General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00
Public Employees Police and Fire Fund	14.10
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2010	2009	2008
General Employees Retirement Fund	\$ 386,739	\$ 350,593	\$ 328,460
Public Employees Police and Fire Fund	123,372	118,253	100,222
Public Employees Correctional Fund	46,190	43,465	43,811

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

C. Other Postemployment Benefits (OPEB)

Plan Description

The County provides health insurance benefits for certain retired employees under a single-employer self-insured health care plan, financed and administered by the Southeast Service Cooperative and Houston County. Blue Cross and Blue Shield of Minnesota (BCBSM), under contract with the Southeast Service Cooperative, is the Claims Administrator. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Active employees who retire from the County when eligible to receive a retirement benefit from PERA (or similar plan) and do not participate in any other health benefits program providing similar coverage will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the County's health benefits program. Retirees are required to pay 100 percent of the

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB)

Plan Description (Continued)

total group rate. Since the premium is a blended rate determined on the entire active and retiree population, the retirees, whose costs are statistically higher than the group average, are receiving an implicit rate “subsidy.” As of January 1, 2010, there were four retirees receiving health benefits from the County’s health plan.

Annual OPEB Cost and Net OPEB Obligations

The County’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County’s annual OPEB cost for 2010, the amount actually contributed to the plan, and changes in the County’s net OPEB obligation:

ARC	\$ 55,139
Interest on net OPEB obligations	2,996
Adjustment to ARC	<u>(4,034)</u>
Annual OPEB Cost	\$ 54,101
Contribution during the year	<u>(21,926)</u>
Increase in net OPEB obligation	\$ 32,175
Net OPEB - Beginning of Year	<u>66,579</u>
Net OPEB - End of Year	<u><u>\$ 98,754</u></u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligations (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended December 31, 2010, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2008	\$ 55,139	\$ 19,082	34.6%	\$ 36,057
December 31, 2009	54,597	24,075	44.1	66,579
December 31, 2010	54,101	21,926	40.5	98,754

Funded Status

Since the County has not irrevocably deposited into a trust for future health benefits, the actuarial value of assets is \$0.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	\$ -	\$ 503,862	\$ 503,862	0.0%	\$ 6,203,278	8.1%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2008, actuarial valuation, the Projected Unit Credit Actuarial Method was used. The actuarial assumptions included a 4.5 percent discount rate (net of expenses), including an inflation assumption of 2.5 percent and an annual health care cost rate of 9.0 percent initially, reduced incrementally to an ultimate rate of five percent after ten years. The initial unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30-year period beginning in 2008.

4. Summary of Significant Contingencies and Other Items

A. Construction Commitments

The government has active construction projects as of December 31, 2010. The projects include the following (amounts in thousands):

	<u>Total Contract</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>	<u>Funding</u>
Governmental Activities				
Jail construction	\$ 15,880	\$ 8,722	\$ 7,158	Bonds repaid with tax levy

B. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

B. Risk Management (Continued)

commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in both 2010 and 2011. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

The County has entered into a joint powers agreement with the MCIT to authorize the Board to exercise the common powers of the participating governmental units in connection with certain matters pertaining to the administration and funding of group employee benefits and other financial risk management services. The County may choose to participate in any of the services offered. The County may withdraw from the pool at any time giving a 90-day written notice. There is no contingent liability after withdrawal.

C. Contingent Liabilities

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer the Agricultural Best Management Loan Program to individuals to implement projects that prevent or mitigate nonpoint source water pollution. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2010.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Contingent Liabilities (Continued)

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 County.

D. Jointly-Governed Organizations

Houston County, in conjunction with other local governments, has formed joint powers boards to provide a variety of services. The County appoints at least one member to the following organizations:

The Southeast Minnesota Water Resources Board provides regional water quality services to several counties. During the year, the Board received \$4,000 from Houston County.

The Southeast Minnesota Emergency Management Services provides various health services to several counties.

The Workforce Development provides various job training services to several counties. During the year, Houston County paid \$33,473 to the Workforce Development.

The Southeast Minnesota Community Action Council (SEMCAC) provides various social services emergency assistance services to several counties. It also provides housing and redevelopment for Houston County through Bluff Country. During the year, Houston County paid \$68,147 to SEMCAC.

The Southeastern Minnesota Narcotics Task Force provides drug enforcement services to several counties. During the year, Houston County paid \$6,000 to the Task Force.

The Southeastern Minnesota Library provides regional library services to counties and cities in southeastern Minnesota. During the year, Houston County paid \$112,881 to the Library.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

The Minnesota Counties Computer Cooperative (MCCC) provides computer programming services to several Minnesota counties. During the year, Houston County paid \$93,980 to the MCCC.

The Southeast Minnesota Regional Radio Board provides for the regional administration of enhancements to the Statewide Public Safety Radio and Communications System (ARMER). During 2011, Houston County paid \$500 to the Board.

E. Joint Venture

Family Services Collaborative

The Houston County Family Services Collaborative was established in 1995 under the authority of Minn. Stat. §§ 471.59 and 124D.23. The Collaborative includes Houston County, four Houston County school districts, and SEMCAC, each of which appoints members to the Collaborative's governing board. The purpose of the Collaborative is to provide a coordinated approach to support and nurture individuals and families through prevention and intervention so as to ensure success for every child.

Control of the Collaborative is vested in a Board of Directors. Houston County appoints two members to this Board. Houston County acts as fiscal agent for the Collaborative. The Collaborative is financed by state grants and appropriations from participating members. During 2010, Houston County provided no funding. In the event of withdrawal from the Collaborative, the withdrawing party shall give a 30-day notice. The withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of termination shall be distributed by the governing board.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

E. Joint Venture

Family Services Collaborative (Continued)

Currently, the Collaborative does not prepare complete financial statements; therefore, the Collaborative does not have audited financial statements. Financial information can be obtained by contacting the following:

Loretta Lillegraven
Fiscal Supervisor
Houston County Public Health Nursing Department
Caledonia, Minnesota 55921

REQUIRED SUPPLEMENTARY INFORMATION

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,954,896	\$ 5,330,532	\$ 5,309,190	\$ (21,342)
Licenses and permits	41,970	41,970	46,210	4,240
Intergovernmental	1,849,834	3,060,868	2,902,586	(158,282)
Charges for services	2,069,938	2,069,938	1,873,847	(196,091)
Fines and forfeits	20,000	20,000	35,672	15,672
Gifts and contributions	5,000	5,000	5,788	788
Investment earnings	73,300	113,300	131,843	18,543
Miscellaneous	259,942	295,942	422,534	126,592
Total Revenues	\$ 10,274,880	\$ 10,937,550	\$ 10,727,670	\$ (209,880)
Expenditures				
Current				
General government				
Commissioners	\$ 282,374	\$ 280,374	\$ 232,162	\$ 48,212
Courts	58,700	58,000	54,679	3,321
County auditor	140,107	141,107	134,935	6,172
Motor vehicle/licence bureau	99,620	100,120	99,345	775
County treasurer	145,208	145,208	142,726	2,482
County assessor	369,358	367,758	359,491	8,267
Elections	85,963	83,863	77,188	6,675
Finance director	205,118	203,093	197,546	5,547
Data processing	307,523	312,277	277,268	35,009
Personnel	180,359	173,759	172,079	1,680
Attorney	361,728	359,390	361,408	(2,018)
Law library	20,000	20,000	15,567	4,433
Recorder	209,997	284,349	255,857	28,492
Surveyor	185,358	178,158	169,559	8,599
Planning and zoning	215,005	215,005	242,377	(27,372)
Buildings and plant	330,985	424,798	382,919	41,879
Veterans service officer	106,208	116,208	114,667	1,541
Other general government	280,545	262,145	275,936	(13,791)
Total general government	\$ 3,584,156	\$ 3,725,612	\$ 3,565,709	\$ 159,903

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,450,096	\$ 1,448,474	\$ 1,434,374	\$ 14,100
Boat and water safety	13,138	13,138	18,072	(4,934)
Emergency services	500	226,710	398,557	(171,847)
Coroner	47,848	47,848	42,631	5,217
E-911 system	199,345	198,675	173,203	25,472
County jail	1,090,591	1,101,205	1,051,807	49,398
Community corrections	203,237	203,237	178,284	24,953
Civil defense	80,300	80,300	117,871	(37,571)
Total public safety	\$ 3,085,055	\$ 3,319,587	\$ 3,414,799	\$ (95,212)
Transportation				
Airport	\$ 345,575	\$ 381,575	\$ -	\$ 381,575
Sanitation				
Solid waste	\$ 463,868	\$ 463,868	\$ 489,259	\$ (25,391)
Recycling	299,279	299,279	307,509	(8,230)
Total sanitation	\$ 763,147	\$ 763,147	\$ 796,768	\$ (33,621)
Health				
Nursing services	\$ 1,542,480	\$ 1,542,480	\$ 1,685,852	\$ (143,372)
Transportation	13,701	13,701	13,000	701
Health center (waivered services)	3,000	3,000	3,000	-
Total health	\$ 1,559,181	\$ 1,559,181	\$ 1,701,852	\$ (142,671)
Culture and recreation				
Historical society	\$ 36,700	\$ 36,700	\$ 36,700	\$ -
Parks	27,563	27,563	23,702	3,861
County/regional library	112,881	112,881	112,881	-
Other culture and recreation	120,000	120,000	100,386	19,614
Total culture and recreation	\$ 297,144	\$ 297,144	\$ 273,669	\$ 23,475

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Conservation of natural resources				
County extension	\$ 151,573	\$ 149,741	\$ 150,075	\$ (334)
Soil and water conservation	126,330	126,330	126,330	-
Agriculture society/County fair	18,000	18,000	18,000	-
Water planning	24,130	24,130	15,418	8,712
Total conservation of natural resources	\$ 320,033	\$ 318,201	\$ 309,823	\$ 8,378
Economic development				
Community development	\$ 97,880	\$ 93,208	\$ 58,216	\$ 34,992
Other economic development	4,011	4,011	116,812	(112,801)
Total economic development	\$ 101,891	\$ 97,219	\$ 175,028	\$ (77,809)
Debt service				
Principal	\$ 245,095	\$ 245,095	\$ 272,210	\$ (27,115)
Interest	5,095	5,095	13,357	(8,262)
Total debt service	\$ 250,190	\$ 250,190	\$ 285,567	\$ (35,377)
Total Expenditures	\$ 10,306,372	\$ 10,711,856	\$ 10,523,215	\$ 188,641
Excess of Revenues Over (Under) Expenditures	\$ (31,492)	\$ 225,694	\$ 204,455	\$ (21,239)
Other Financing Sources (Uses)				
Transfers in	\$ 31,492	\$ 72,398	\$ -	\$ (72,398)
Proceeds from sale of capital assets	-	-	1,050	1,050
Total Other Financing Sources (Uses)	\$ 31,492	\$ 72,398	\$ 1,050	\$ (71,348)
Change in Fund Balance	\$ -	\$ 298,092	\$ 205,505	\$ (92,587)
Fund Balance - January 1	5,747,319	5,747,319	5,747,319	-
Fund Balance - December 31	\$ 5,747,319	\$ 6,045,411	\$ 5,952,824	\$ (92,587)

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,263,052	\$ 1,968,491	\$ 2,118,546	\$ 150,055
Licenses and permits	1,000	1,000	1,435	435
Intergovernmental	6,219,611	6,609,207	8,535,881	1,926,674
Charges for services	207,000	207,000	112,843	(94,157)
Investment earnings	30,500	30,500	56,950	26,450
Miscellaneous	4,000	4,000	5,756	1,756
Non-revenue receipts	708,500	863,500	-	(863,500)
Total Revenues	\$ 9,433,663	\$ 9,683,698	\$ 10,831,411	\$ 1,147,713
Expenditures				
Current				
Transportation				
Administration	\$ 247,541	\$ 246,025	\$ 229,161	\$ 16,864
Maintenance	2,721,166	2,477,704	2,613,410	(135,706)
Construction	5,824,660	6,085,881	5,188,593	897,288
Equipment maintenance and shop	781,296	854,301	704,940	149,361
Total transportation	\$ 9,574,663	\$ 9,663,911	\$ 8,736,104	\$ 927,807
Debt service				
Principal	\$ -	\$ -	\$ 132,790	\$ (132,790)
Interest	-	-	9,773	(9,773)
Total debt service	\$ -	\$ -	\$ 142,563	\$ (142,563)
Total Expenditures	\$ 9,574,663	\$ 9,663,911	\$ 8,878,667	\$ 785,244
Excess of Revenues Over (Under) Expenditures	\$ (141,000)	\$ 19,787	\$ 1,952,744	\$ 1,932,957
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	15,000	15,000	-	(15,000)
Change in Fund Balance	\$ (126,000)	\$ 34,787	\$ 1,952,744	\$ 1,917,957
Fund Balance - January 1	1,676,254	1,676,254	1,676,254	-
Increase (decrease) in reserved for inventories	-	-	95,617	95,617
Fund Balance - December 31	\$ 1,550,254	\$ 1,711,041	\$ 3,724,615	\$ 2,013,574

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

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 879,666	\$ 779,523	\$ 765,081	\$ (14,442)
Intergovernmental	3,094,377	3,304,977	2,748,824	(556,153)
Charges for services	5,700	5,700	276,009	270,309
Investment earnings	18,000	18,000	9,771	(8,229)
Miscellaneous	288,935	364,435	46,686	(317,749)
Total Revenues	\$ 4,286,678	\$ 4,472,635	\$ 3,846,371	\$ (626,264)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,078,996	\$ 1,222,986	\$ 1,045,648	\$ 177,338
Social services	3,207,682	3,250,192	2,793,882	456,310
Total Expenditures	\$ 4,286,678	\$ 4,473,178	\$ 3,839,530	\$ 633,648
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ (543)	\$ 6,841	\$ 7,384
Fund Balance - January 1	1,327,547	1,327,547	1,327,547	-
Fund Balance - December 31	\$ 1,327,547	\$ 1,327,004	\$ 1,334,388	\$ 7,384

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2010**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	\$ -	\$ 503,862	\$ 503,862	0.0%	\$ 6,203,278	8.1%

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2010**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end.

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the County Finance Director so that a budget can be prepared. Before October 31, the proposed budget is presented to the Houston County Board of Commissioners 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. The County's department head may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made no supplemental budgetary appropriations.

Encumbrance accounting is employed in governmental funds. Encumbrances (such as purchase orders or contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

2. Other Postemployment Benefits

Houston County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2008. Future reports will provide additional trend analysis to meet the three-actuarial-valuation data requirement as it becomes available. See Note 3.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

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SUPPLEMENTARY INFORMATION

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MAJOR FUND

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 399,009	\$ 399,009	\$ 261,703	\$ (137,306)
Intergovernmental	-	-	963	963
Total Revenues	\$ 399,009	\$ 399,009	\$ 262,666	\$ (136,343)
Expenditures				
Debt service				
Principal	\$ 142,207	\$ 142,207	\$ -	\$ 142,207
Interest	256,802	256,802	242,556	14,246
Administrative (fiscal) charges	-	-	5,680	(5,680)
Total Expenditures	\$ 399,009	\$ 399,009	\$ 248,236	\$ 150,773
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 14,430	\$ 14,430
Fund Balance - January 1	253,593	253,593	253,593	-
Fund Balance - December 31	\$ 253,593	\$ 253,593	\$ 268,023	\$ 14,430

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

AGENCY FUNDS

Agency funds are used to account for assets held by a governmental unit as an agent for individuals, private organizations, other governmental units, and other funds.

The Crooked Creek Watershed Fund accounts for reimbursements to the Watershed District for operations and the collection of assessments to pay the Watershed District's bonded debt and interest.

The Health Fund is used to account for employees' pre-tax health benefits.

The Revolving Fund accounts for the transfer of County collections to the state (mortgage registry tax, game and fish license sales, motor vehicle license sales, state deed tax sales, and state revenue taxes) and the apportionment of state-aid payments for police and fire departments to cities and towns.

The Soil and Water Conservation Fund accounts for the assets of the Root River Soil and Water Conservation District held by the County.

The School Districts Fund accounts for property taxes collected and remitted by the County to the various school districts in the County.

The Family Collaborative Fund accounts for monies received and expended by the Family Services Collaborative.

The Taxes and Penalties Fund accounts for the collection and distribution of property taxes (current and delinquent).

The Towns and Cities Fund accounts for the taxes and other amounts received by the County for the various towns and cities.

The Historical Bluff Country Fund accounts for the monies received and expended by Historical Bluff Country.

The Victim Services Fund accounts for the funds of Victim Services, a nonprofit agency for which the County is the fiscal agent.

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CROOKED CREEK WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 895	\$ 24,503	\$ 24,786	\$ 612
<u>Liabilities</u>				
Due to other governments	\$ 895	\$ 24,503	\$ 24,786	\$ 612
 <u>HEALTH</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 34,202	\$ 74,973	\$ 70,287	\$ 38,888
<u>Liabilities</u>				
Accounts payable	\$ 34,202	\$ 74,973	\$ 70,287	\$ 38,888
 <u>REVOLVING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 26,867	\$ 3,283,373	\$ 3,296,663	\$ 13,577
<u>Liabilities</u>				
Due to other governments	\$ 26,867	\$ 3,283,373	\$ 3,296,663	\$ 13,577

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SOIL AND WATER CONSERVATION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,274,183	\$ 592,948	\$ 872,701	\$ 994,430
<u>Liabilities</u>				
Due to other governments	\$ 1,274,183	\$ 592,948	\$ 872,701	\$ 994,430
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 170,865	\$ 5,554,392	\$ 5,564,093	\$ 161,164
<u>Liabilities</u>				
Due to other governments	\$ 170,865	\$ 5,554,392	\$ 5,564,093	\$ 161,164
 <u>FAMILY COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 129,118	\$ 90,769	\$ 93,303	\$ 126,584
<u>Liabilities</u>				
Due to other governments	\$ 129,118	\$ 90,769	\$ 93,303	\$ 126,584

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 56,837	\$ 23,076,325	\$ 23,042,585	\$ 90,577
<u>Liabilities</u>				
Accounts payable	\$ 56,837	\$ 2,769,159	\$ 2,735,419	\$ 90,577
Due to other funds	-	8,076,714	8,076,714	-
Due to other governments	-	12,230,452	12,230,452	-
Total Liabilities	\$ 56,837	\$ 23,076,325	\$ 23,042,585	\$ 90,577
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 135,025	\$ 6,227,037	\$ 6,211,259	\$ 150,803
<u>Liabilities</u>				
Due to other governments	\$ 135,025	\$ 6,227,037	\$ 6,211,259	\$ 150,803
<u>HISTORICAL BLUFF COUNTRY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 162	\$ 24,309	\$ 24,309	\$ 162
<u>Liabilities</u>				
Accounts payable	\$ 162	\$ 24,309	\$ 24,309	\$ 162

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>VICTIM SERVICES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 17,584	\$ 44,489	\$ 44,007	\$ 18,066
<u>Liabilities</u>				
Due to other governments	\$ 17,584	\$ 44,489	\$ 44,007	\$ 18,066
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,845,738	\$ 38,993,118	\$ 39,243,993	\$ 1,594,863
<u>Liabilities</u>				
Accounts payable	\$ 91,201	\$ 2,868,441	\$ 2,830,015	\$ 129,627
Due to other funds	-	8,076,714	8,076,714	-
Due to other governments	1,754,537	28,047,963	28,337,264	1,465,236
Total Liabilities	\$ 1,845,738	\$ 38,993,118	\$ 39,243,993	\$ 1,594,863

OTHER SCHEDULES

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Shared Revenue

State

Highway users tax	\$	3,687,983
PERA rate reimbursement		23,721
Disparity reduction aid		116,493
Police aid		86,038
County program aid		906,225
Market value credit		715,544
Enhanced 911		95,704

Total shared revenue **\$ 5,631,708**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	661,853
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Payments

Local

Payments in lieu of taxes	\$	296,047
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Grants

State

Minnesota Department/Board of		
Public Safety	\$	277,475
Health		175,735
Employment and Economic Development		878
Labor and Industry		1,313
Natural Resources		111,071
Human Services		928,565
Corrections		38,777
Transportation		1,850,002
Water and Soil Resources		132,858
Pollution Control Agency		55,950
Secretary of State		225
Peace Officer Standards and Training Board		4,660

Total state **\$ 3,577,509**

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**EXHIBIT D-1
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Grants (Continued)

Federal

Department of	
Agriculture	\$ 160,853
Commerce	225,496
Justice	699
Transportation	1,812,652
Energy	95,000
Education	2,975
Health and Human Services	1,154,694
Homeland Security	547,387
Environmental Protection Agency	24,356

Total federal **\$ 4,024,112**

Total state and federal grants **\$ 7,601,621**

Total Intergovernmental Revenue **\$ 14,191,229**

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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	\$ 77,884
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP Cluster State Administrative Matching Grants for SNAP - ARRA State Administrative Matching Grants for SNAP	10.561 10.561	2,675 <u>80,294</u>
Total U.S. Department of Agriculture		<u>\$ 160,853</u>
U.S. Department of Commerce		
Passed Through Minnesota Department of Public Safety Applied Meteorological Research	11.468	\$ 208,589
Passed Through Southeastern Minnesota Regional Radio Board Public Safety Interoperable Communications Grant Program	11.555	<u>16,907</u>
Total U.S. Department of Commerce		<u>\$ 225,496</u>
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Public Safety Partnership and Community Policing Grants	16.710	<u>\$ 699</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Airport Improvement Program Highway Planning and Construction	20.106 20.205	\$ 13,265 1,627,125
Passed Through Minnesota Department of Public Safety Highway Safety Cluster State and Community Highway Safety Alcohol Impaired Driving Countermeasures Incentive Grants	20.600 20.601	1,510 <u>1,509</u>
Total U.S. Department of Transportation		<u>\$ 1,643,409</u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Environmental Protection Agency		
Passed Through Southeast Minnesota Water Resource Board Nonpoint Source Implementation Grants	66.460	<u>\$ 24,356</u>
U.S. Department of Energy		
Passed Through Minnesota Department of Commerce Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	81.128	<u>\$ 95,000</u>
U.S. Department of Education		
Passed Through the Hiawatha Valley Education District Special Education - Grants for Infants and Families	84.181	<u>\$ 2,975</u>
U.S. Department of Health and Human Services		
Passed Through the National Association of County and City Health Officials Medical Reserve Corps Small Grant Program	93.008	\$ 5,000
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	39,454
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	41,879
Temporary Assistance for Needy Families (TANF)	93.558	19,594
Immunization - ARRA	93.712	5,899
Maternal and Child Health Services Block Grant to the States	93.994	23,503
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	7,939
Temporary Assistance for Needy Families (TANF)	93.558	97,657
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	242,621
Child Support Enforcement - ARRA	93.563	24,039
Refugee and Entrant Assistance - State-Administered Programs	93.566	91
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	8,945
Child Welfare Services - State Grants	93.645	1,442
Foster Care Title IV-E	93.658	182,679
Social Services Block Grant	93.667	110,848
Chafee Foster Care Independence Program	93.674	5,090
Children's Health Insurance Program	93.767	190
Medical Assistance Program	93.778	<u>323,745</u>
Total U.S. Department of Health and Human Services		<u>\$ 1,140,615</u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 5,000
Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	378,500
Emergency Management Performance Grants	97.042	20,182
Passed Through Southeastern Minnesota Regional Radio Board Interoperable Emergency Communications	97.055	38,456
Homeland Security Grant Program	97.067	5,739
Passed Through Southeastern Minnesota Region One Homeland Security and Emergency Management Board Homeland Security Grant Program	97.067	<u>102,468</u>
Total U.S. Department of Homeland Security		\$ 550,345
Total Federal Awards		\$ 3,843,748

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Houston County under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Houston County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Houston County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 4,021,137
Deferred in 2009, recognized as revenue in 2010	
Highway Planning and Construction	(186,139)
Child Support Enforcement	(12,000)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	(981,902)
Grants received more than 60 days after year-end, deferred in 2010	
Highway Planning and Construction	16,896
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	896
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	857,994
Interoperable Emergency Communications	38,456
Homeland Security Grant Program	88,410
Expenditures per Schedule of Expenditures of Federal Awards	\$ 3,843,748

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

5. Subrecipients

During 2010, the County did not pass any federal money to subrecipients.

6. American Recovery and Reinvestment Act

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

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Houston County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Houston County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Houston County were disclosed during the audit.
- D. A significant deficiency relating to the audit of the major federal award programs is reported in the "Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133." It was not a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for Houston 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:

Highway Planning and Construction	CFDA #20.205
Child Support Enforcement Cluster	
Child Support Enforcement	CFDA #93.563
Child Support Enforcement - ARRA	CFDA #93.563
Disaster Grants - Pubic Assistance (Presidentially Declared Disasters)	CFDA #97.036
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Houston County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-1 Audit Adjustments

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

During our audit, we proposed audit adjustments, which were reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend that the County implement internal control procedures over financial reporting which will prevent, or detect and correct, misstatements in the financial statements. The controls procedures should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

Client's Response:

Houston County will continue to update existing policies and implement new ones to improve the overall quality of internal controls. The County is also refining the processes and procedures by which it produces the financial statements in an effort to reduce misstatements and detect misclassified transactions before they are incorporated into the financial statements.

06-2 Segregation of Duties and Investment Oversight

Our review of the County Treasurer's and the Finance Department's duties noted the following internal accounting control weaknesses.

- The County Treasurer buys, sells, and records interest earned for all investments for the County. There is no independent tracking of these transactions by the Finance Department. A record of these transactions should be maintained by the Finance Department to compare with the Treasurer's investment balances as part of the monthly balancing procedure.
- No callback procedures are in place with the banking institution for electronic funds transfers (EFT) made by the County Treasurer. The EFT policy should be updated to include callback procedures from the banking institution to management level personnel at the County to verify the authenticity and the validity of the EFT request.
- The County Treasurer and the Finance Department do not reconcile the monthly cash and pooled investment balance to the County's general ledger. In order for the general ledger to be reliable, the monthly treasury cash and pooled investments must be reconciled to the general ledger.
- No independent review of the monthly bank account reconciliations is done. Independent review of the reconciliations should be conducted to ensure that reconciling items in the reconciliation are justified and the bank balance is reconciled to the book balance.

We recommend the County Treasurer improve controls in the Treasury Department by having an independent tracking of investment transactions, initiating callback procedures for EFTs made by the County Treasurer, having an independent review of monthly bank account reconciliations, and reconciling the monthly cash and pooled investment balance to the County's general ledger.

Client's Response:

The County will look at having email verifications sent before investments are bought or sold by our various investment brokers. The investment policy shall be submitted annually to each investment broker, and a required signature is required for compliance. Any proceeds from investments are required to be deposited in only one account preventing the ability of funds to be diverted to other accounts. Treasury will establish procedures as a part of the monthly reconciliations to incorporate balancing back to the IFS system. The Treasurer now reviews the monthly bank reconciliations and initials upon completion of the review.

08-2 Departmental Internal Accounting Controls

One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction.

Due to the limited number of personnel within some County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not always possible. These segregation of duties issues are not unusual in operations the size of Houston County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

We recommend the County Board segregate accounting duties as much as possible. When it is not feasible to segregate certain duties, Houston County management should be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being followed by staff.

Client's Response:

The County will continue to evaluate its operational policies and procedures and implement compensating controls whenever possible.

09-3 Information Technology Policies and Procedures

The County does not have written policies and procedures in place to address the following for its information technology systems: information security, business continuity planning, operations development, termination of employees, backup procedures, risk assessments of the systems, and email encryption methods. All major policies and procedures related to the information technology systems should be documented so that employees are aware of the County's policies and procedures relating to security, operations development, termination of employees, and backup procedures. If they are not aware, there may not be consistent application of procedures by all County staff, and this could leave the County information more vulnerable to loss or destruction of data.

We recommend the County Information Systems Department establish the policies and procedures relating to information technology systems. The County should also ensure that County staff are given the policies and procedures and are made aware that they are responsible for compliance with them.

Client's Response:

The Information Systems Department will begin documenting current procedures as well as developing formal policies for adoption by the County Board.

ITEMS ARISING THIS YEAR

10-1 Information Technology Security Function

The Accounting Manager performs the information technology security function for the County. The information technology security function is incompatible with the functions of the Accounting Manager because it provides the Manager unlimited access to the County's information system to make changes to the accounting records that may or may not be authorized by management or other user departments. Unauthorized changes may not be detected in a timely manner. The Accounting Manager was the former Information Technology Systems Manager, and the information security duties were not reassigned when the person became the Accounting Manager. The County should provide for the segregation of functions and responsibilities so that no one person has incompatible duties that would permit the perpetration and concealment of material errors or irregularities. The function of information technology security should be segregated from the accounting function to ensure the integrity of the data stored in the County's information system.

We recommend that the County segregate the information technology security function from the Accounting Manager's responsibilities. We further recommend that the information security function be assigned to the Information Technology Department.

Client's Response:

The Information Systems Director will be evaluating the systems accesses currently afforded to the Accounting Manager and making changes that are consistent and not in excess of the job requirements of the Accounting Manager.

10-2 Internal Controls Over Parks Department

During our audit of Wildcat Park's Department, we noted several weaknesses in departmental control procedures. They are as follows:

- Review of receipts indicated that the number of days stayed documented on the receipt did not always correspond with the fees charged to the customer.
- Receipts did not always indicate detail information such as dates stayed, type of campsite, etc.

- There is a two-night minimum to be charged on the weekends per the agreement. Receipts tested showed the agreement was not being followed as numerous receipts showed collections for only one night on the weekend.
- The customer was not always charged for the type of site indicated on the receipt, such as primitive or electrical.
- Not all the rental fees collected in June 2010 at Wildcat Park were included in the deposit to the County. The maintenance and operations agreement states 50 percent of the rental fees be submitted to the County by the tenth day of the following month.
- For rental of the shelter at the park, there is a requirement for a \$50 deposit. There was no indication on the receipt of collection and subsequent payback of this deposit for any shelter rentals.
- The County's agreement currently in force for the management and operations service with an outside operator for Wildcat Park ended on September 30, 2009, and has not been extended or renewed beyond that date.

The establishment and oversight of departmental control procedures is particularly important because generally these smaller departments lack proper segregation of duties, which increases the risk of errors or fraud.

The agreement for maintenance and operations should be monitored to ensure collections for deposits and seasonal fees are made when required. Fees should be submitted in the month collected and on a timely basis to ensure errors or irregularities are less likely to occur. Also, fees collected should be monitored and compared to a fee schedule to ensure the correct fee collections are being made. County staff were supposed to check the fees deposited, but the errors were missed.

We recommend the Houston County management implement oversight and monitoring procedures to ensure agreements are being followed and collections are current and for the proper amount. We also recommend that County staff monitor parks collections to ensure proper fees are collected and deposited within the times specified in the maintenance and operations agreement.

Client's Response:

Houston County will continue to work with the existing vendor to ensure compliance with applicable rules as ordinances to ensure compliance. The Auditor's Office will monitor deposit timeliness as well as verification of receipts.

PREVIOUSLY REPORTED ITEMS RESOLVED

Access to Accounting System (08-1)

We noted in our review of user access to the accounting system that Data Processing Department personnel have user access to the accounting system. User access to the accounting system should be limited to those whose job responsibilities are to process accounting transactions.

Resolution

This finding has been incorporated into 10-1 because of changes made to personnel job duties.

Internal Control Procedures - Accounting Manual (09-1)

The written internal control procedures for general disbursements, receipting, budgeting, recording of capital assets, and the preparation of the annual financial statements do not disclose all of the internal control processes.

Resolution

The County has control procedures for most of the internal control processes.

Controls Over Automated Clearing House (ACH) Payments (09-2)

While reviewing ACH internal control processes, we found that the same employee can set up employee ACH bank routing information in the payroll master file and send the ACH electronic payment file to the bank.

Resolution

The County has set up controls over the ACH process.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

- 10-3 Identification of Federal Awards - Highway Planning and Construction (CFDA No. 20.205), Disaster Grants - Public Assistance (CFDA No. 97.036), Interoperable Emergency Communications (CFDA No. 97.055), Homeland Security Grant Program (CFDA No. 97.067), and Immunization - ARRA (CFDA No. 93.712)

The County did not adequately identify amounts received and expended for various federal awards on the Schedule of Expenditures of Federal Awards (SEFA). The following errors due to improper classification and identification of federal awards were noted:

- The County classified \$1,772,059 as federal Highway Planning and Construction (CFDA No. 20.205) when the amount should have been \$1,627,125.

- The County classified \$527,713 as federal Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA No. 97.036) when the amount should have been \$378,000.
- The County did not identify \$38,456 as federal Interoperable Emergency Communications (CFDA No. 97.055) and \$5,739 as federal Homeland Security Grant Program (CFDA No. 97.067) passed through the Southeast Minnesota Regional Radio Board. The County also did not identify \$102,468 as federal Homeland Security Grant Program (CFDA No. 97.067) passed through the Southeastern Minnesota Region One Homeland Security and Emergency Management Board.
- The County did not identify \$5,899 federal ARRA funding for Immunization (CFDA No. 93.712).

OMB Circular A-133, Subpart C, § .300, indicates auditee responsibilities include identification of all federal awards received and expended and the federal programs under which they were received and preparation of the SEFA.

We recommend County management develop a system and written procedures that will allow staff to correctly identify and classify all federal financial assistance received and expended. Procedures should include determination of the correct program CFDA number, revenue source, and program name.

Corrective Action Plan:

Contact Person Responsible for Corrective Action:

Carol Lapham, Accounting Manager, 507-725-5825

Action Planned:

The County has modified its grant policy to require each department to fully document the proceeds of any federal grant awarded and the documents must be filed with the Finance Department. Have departments file a form with the Finance Department any time they are awarded a grant to ensure that the grants are reported accurately at the end of the fiscal year.

Completion Date:

June 2011.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

10-4 Insufficient Collateral

Governmental entities are required by Minn. Stat. § 118A.03 to obtain collateral to secure deposits to the extent that funds on deposit exceed available federal deposit insurance at the close of the financial institution's banking day. The market value of the collateral should be at least ten percent more than the uninsured and unbonded amount on deposit. The County had deposits at Eitzen State Bank that were not adequately covered by collateral. The amount of deposits not covered by collateral at Eitzen State Bank at December 31, 2010, was \$184,394. The County did not notice the pledged securities held at Eitzen State Bank were not enough to secure the deposits held.

We recommend the County monitor all County deposits to determine there is adequate collateral pledged to secure deposits in accordance with Minn. Stat. § 118A.03 and obtain the required collateral.

Client's Response:

New procedures have been implemented for the verification and validation of collateral pledged against County investments.

PREVIOUSLY REPORTED ITEM RESOLVED

Delegation to Pay Claims (08-4)

The County pays some claims prior to Board approval. The Houston County Board did not delegate its authority to pay certain claims made against the County. The County has not adopted a resolution authorizing a specific County official to pay the claims that meet the standards and procedures established by the Board in accordance with Minn. Stat. § 375.18, subd. 1b.

Resolution

The County adopted a resolution delegating its authority to pay certain claims in accordance with Minnesota statutes.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

01-2 Disaster Recovery

Houston County has an informal disaster recovery agreement with another county but does not have a formal disaster recovery plan. A disaster recovery plan gives assurance that the County is prepared for a disaster or major computer breakdown. The County needs to provide services to County residents after a disaster and during a major computer breakdown. Services that need to be addressed include: the continuance of several important applications processed by its computer system, including the preparation of payroll; the calculation of tax assessments and settlements; and the recording of receipts and disbursements.

A disaster recovery plan should include, but not be limited to, the following:

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other County employees;
- a plan of how the County will continue operations until normal operations are re-established--this should include the use of alternative computer facilities and/or the use of manual procedures, a list of master operating schedules, and critical job schedules;
- a list of materials the County needs to continue operations and how they would be obtained;
- hardware configurations and minimum equipment requirements;
- information relative to offsite backup storage facilities;
- a list of vendor contracts;
- identification of what space should be used; and
- a schedule for developing and periodically reviewing and updating the plan.

We recommend that the County Board officially develop, implement, and test a disaster recovery plan. All County employees should be familiar with the plan. The plan should detail the steps to be taken to continue operations in the event of a disaster. The plan should have copies with each member of the recovery team, in the data center and stored at a secure off-site location.

Client's Response:

The County will continue to work on the development and implementation of a formal disaster recovery plan.

C. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Houston County for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved - designated, and unreserved - undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.

- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

The County should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The County can start with the following steps:

- review the requirements of GASB Statement 54;
- review current fund balances and compare to the new classifications;
- reclassify January 1, 2011, fund balance using the new classifications;
- review/update/prepare a comprehensive fund balance policy;
- prepare appropriate Board resolutions to commit fund balance; and
- if the Board of County Commissioners intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in the new standard. The new definition for a special revenue fund could have significant impact on the County's current fund classifications.

GASB Statement 54 provides a new and clearer description of when it is appropriate to account for an activity using a special revenue fund. Special revenue funds are used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects, where the restricted or committed revenue sources comprise a substantial portion of the fund's resources, and are expected to continue to do so in the future. The standard does not define substantial portion; however, most recommendations are generally that the restricted or committed revenues should comprise at least 35 to 50 percent of total fund revenues. Under this definition, it is possible that some current special revenue funds will no longer meet the requirements for special revenue fund treatment. The County's management should review the County's special revenue funds to ensure these funds continue to warrant treatment as special revenue funds.

The County's management should perform the following steps prior to December 31, 2011:

- prepare a list of the County's special revenue funds;
- determine the sources of revenues for each of those funds;
- identify whether any of those revenues are restricted or committed;
- determine if these restricted or committed revenues represent a substantial portion of the fund's revenues and are expected to continue to be a substantial source of revenues;
 - if yes, the fund may continue to be classified as a special revenue fund;
 - if not, determine whether the County will combine that fund with the general fund or with a similar purpose special revenue fund that meets the new definition;
- code revenues in the general ledger by source constraints--restricted, committed, assigned, or unassigned; and
- determine if there needs to be a restatement of beginning fund balances.

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, such as detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at:
http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.

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

Board of County Commissioners
Houston County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houston County as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2011. 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 Houston County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that at material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 06-1 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 06-2, 08-2, 09-3, 10-1, and 10-2 to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Houston County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 10-4.

Also included in the Schedule of Findings and Questioned Costs is a management practice comment and an other item for consideration. We believe this recommendation and information to be of benefit to the County, and they are reported for that purpose.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 27, 2011

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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

Board of County Commissioners
Houston County

Compliance

We have audited Houston County's compliance of with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. Houston 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 Houston 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 of the County's compliance with those requirements.

In our opinion, Houston County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

Management of Houston County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as item 10-3. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 27, 2011

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR