

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**HOUSTON COUNTY**  
**CALEDONIA, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2006**

## **Description of the Office of the State Auditor**

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

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**Year Ended December 31, 2006**



**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, 2006

		<u>Term Expires</u>
<b>Elected</b>		
Commissioners		
Board Member	Larry Graf**	District 1      January 2009
Chair	Kevin Kelleher	District 2      January 2007
Board Member	Ann Thompson*	District 3      January 2009
Board Member	David Corcoran	District 4      January 2007
Vice Chair	Thomas Bjerke	District 5      January 2009
Attorney	Richard Jackson	January 2007
Auditor	A. Peter Johnson	January 2007
County Recorder	Beverly Bauer	January 2007
County Sheriff	Darryl Peterson	January 2007
District Judge	James Fabian	January 2007
Treasurer	Audrey M. Petersen	January 2007
<b>Appointed</b>		
Assessor	Thomas Dybing	December 2008
County Engineer	Marcus Evans	May 2007
Coroner	Regional Medical Center	Indefinite
Court Administrator	Darlene Kuhlers	Indefinite
Social Services Director	Beth Wilms	Indefinite
Public Health Nurse	Debra Rock	Indefinite
Veterans Service Officer	Robert Gross	October 2007

\*Chair 2007

\*\*Vice Chair 2007

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
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, 2006, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Houston County as of December 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and required supplementary information budgetary comparison schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated December 11, 2007, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 11, 2007

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006  
(Unaudited)**

Houston County's discussion and analysis provides an overview of the County's financial activities for the fiscal year ended December 31, 2006. 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.

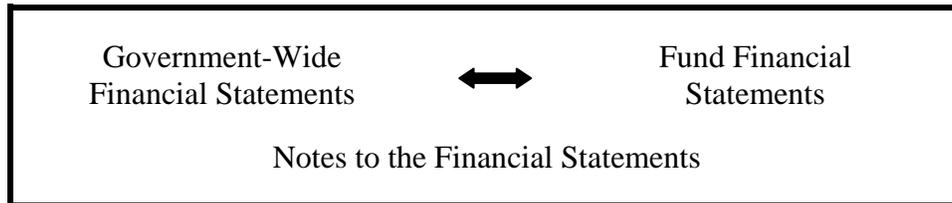
**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net assets are \$65,683,267, of which \$53,708,099 is invested in capital assets and \$3,380,988 is restricted to specific purposes.
- Houston County's net assets increased by \$999,310 for the year ended December 31, 2006.
- The net cost of governmental activities for the current fiscal year was \$7,261,326. The net cost was funded by general revenues, including taxes and grants.
- Governmental funds' fund balances decreased by \$611,654. Most of the decrease was due to purchasing property for the proposed criminal justice center facility.

**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.

Management's Discussion  
and Analysis  
(Required Supplementary Information)



Required Supplementary Information  
(other than MD&A)

There are two government-wide financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start 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 governmental funds use the following accounting method.

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 \$64,683,957 to \$65,683,267.

**Table 1**  
**Net Assets**  
**(in Millions)**

	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 13.6	\$ 12.8
Capital assets	<u>53.7</u>	<u>53.4</u>
Total Assets	<u>\$ 67.3</u>	<u>\$ 66.2</u>
Long-term debt outstanding	\$ 0.7	\$ 0.8
Other liabilities	<u>0.9</u>	<u>0.7</u>
Total Liabilities	<u>\$ 1.6</u>	<u>\$ 1.5</u>
Net Assets		
Invested in capital assets	\$ 53.7	\$ 53.3
Restricted	3.4	2.4
Unrestricted	<u>8.6</u>	<u>9.0</u>
Total Net Assets	<u>\$ 65.7</u>	<u>\$ 64.7</u>

Net assets of the County's governmental activities increased by 1.5 percent (\$64,683,957 compared to \$65,683,267).

**Table 2**  
**Changes in Net Assets**  
**(in Millions)**

	<u>2006</u>	<u>2005</u>
Revenues		
Program revenues		
Fees, fines, charges, and other	\$ 2.4	\$ 2.3
Operating grants and contributions	7.0	7.5
Capital grants and contributions	0.8	0.5
General revenues		
Property taxes	5.4	4.9
Other taxes and payments in lieu of taxes	0.3	0.1
Grants and contributions	2.0	2.0
Other general revenues	<u>0.6</u>	<u>0.4</u>
Total Revenues	<u>\$ 18.5</u>	<u>\$ 17.7</u>

	<u>2006</u>	<u>2005</u>
Program expenses		
General government	\$ 3.0	\$ 2.9
Public safety	2.6	2.1
Transportation	4.6	4.7
Human services	4.2	4.0
Health	1.5	1.3
Sanitation	0.9	0.7
Culture and recreation	0.3	0.2
Conservation of natural resources	0.4	0.3
Economic development	-	0.1
	<u>17.5</u>	<u>16.3</u>
Total Program Expenses	\$ 17.5	\$ 16.3
	<u>1.0</u>	<u>1.4</u>
Increase (Decrease) in Net Assets	\$ 1.0	\$ 1.4

### Governmental Activities

The cost of all governmental activities this year was \$17,493,912. However, as shown in the Statement of Activities, the amount that the taxpayers ultimately financed for these activities through County property taxes was only \$5,435,745, because some of the cost was paid by those who directly benefited from the programs (\$2,438,497) or by other governments and organizations that subsidized certain programs with grants and contributions (\$7,794,089). The County paid for the remaining “public benefit” portion of governmental activities with \$7,261,326 in general revenues, primarily property taxes and other revenues, such as interest and general entitlements.

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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Transportation	\$ 4.6	\$ 3.2	\$ 0.2	\$ (1.5)
Human services	4.2	4.0	1.7	1.5
General government	3.0	2.7	2.3	2.2
Public safety	2.6	2.1	2.1	1.7

## **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, 2006, Houston County's governmental funds reported combined ending fund balances of \$9,662,060, a decrease of \$611,654 in comparison with 2005. Approximately, 35 percent of this amount (\$3,398,351) constitutes unreserved, undesignated fund balance, which is available for spending at the County's discretion. 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, 2006, unreserved, undesignated fund balance was \$1,815,197, while total fund balance was \$5,414,466. 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 20 percent of total General Fund expenditures, while total fund balance represents 58 percent of the same amount.

The Road and Bridge Fund's fund balance increased by \$220,379, for an ending balance of \$2,629,131, of which \$659,892 is unreserved, undesignated. The increase is due to decreased spending in the Road and Bridge Fund. The Social Services Fund fund balance decreased by \$301,842 to \$1,618,463, of which \$923,262, or 57 percent, is unreserved, undesignated.

### **General Fund Budgetary Highlights**

Houston County did not revise its General Fund budget during 2006. For the year ended December 31, 2006, expenditures exceeded appropriations by \$1,289,229, with the largest overages in the general government and public safety functions.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2006, the County had \$53,708,099 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 \$280,327, or 0.5 percent, over last year.

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

	<u>2006</u>	<u>2005</u>
Land	\$ 2.2	\$ 1.9
Construction in progress	0.4	4.4
Buildings and improvements	1.5	1.5
Machinery, vehicles, furniture, and equipment	2.7	2.3
Infrastructure	<u>46.9</u>	<u>43.3</u>
Totals	<u>\$ 53.7</u>	<u>\$ 53.4</u>

This year's major addition was the acquisition of property adjacent to the courthouse for the proposed criminal justice center facility.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged.

- The State of Minnesota has projected a significant budget deficit, and it is anticipated that there will be significant reductions in state aids to local governments.
- County Road and Bridge Fund expenditures for 2007 are budgeted to increase 37.5 percent from 2006 due to an increase in road construction projects.
- Property tax levies have increased 8.89 percent for 2007.

## 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 Auditor, A. Peter Johnson, 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, 2006**

**Assets**

Cash and pooled investments	\$	5,858,803
Petty cash and change funds		17,035
Investments		3,385,930
Taxes receivable		
Prior - net		95,990
Accounts receivable - net		128,316
Accrued interest receivable		60,832
Loans receivable		102,024
Due from other governments		3,563,959
Prepaid items		5,972
Inventories		369,504
Capital assets		
Nondepreciable		2,646,962
Depreciable - net of accumulated depreciation		51,061,137
		67,296,464
<b>Total Assets</b>	<b>\$</b>	<b>67,296,464</b>

**Liabilities**

Accounts payable	\$	462,454
Salaries payable		116,294
Contracts payable		90,007
Due to other governments		102,360
Unearned revenue		96,808
Customer deposits		2,973
Long-term liabilities		
Due within one year		36,389
Due in more than one year		705,912
		1,613,197
<b>Total Liabilities</b>	<b>\$</b>	<b>1,613,197</b>

**Net Assets**

Invested in capital assets	\$	53,708,099
Restricted for		
Highways and streets		2,918,096
General government		171,239
Public safety		204,814
Economic development		86,839
Unrestricted		8,594,180
		65,683,267
<b>Total Net Assets</b>	<b>\$</b>	<b>65,683,267</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets	
	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions		
<b>Functions/Programs</b>					
<b>Primary government</b>					
<b>Governmental activities</b>					
General government	\$ 3,018,135	\$ 465,485	\$ 57,357	\$ 190,604	\$ (2,304,689)
Public safety	2,565,761	141,795	286,061	-	(2,137,905)
Transportation	4,606,466	135,112	3,662,005	629,833	(179,516)
Sanitation	872,237	564,297	-	-	(307,940)
Human services	4,233,571	29,050	2,526,889	-	(1,677,632)
Health	1,499,309	1,050,054	249,727	-	(199,528)
Culture and recreation	274,941	45,504	-	-	(229,437)
Conservation of natural resources	361,476	813	191,613	-	(169,050)
Economic development	53,930	6,387	-	-	(47,543)
Interest	8,086	-	-	-	(8,086)
<b>Total</b>	<b>\$ 17,493,912</b>	<b>\$ 2,438,497</b>	<b>\$ 6,973,652</b>	<b>\$ 820,437</b>	<b>\$ (7,261,326)</b>
 <b>General Revenues</b>					
Property taxes				\$ 5,435,745	
Mortgage registry and deed tax				14,085	
Payments in lieu of tax				266,586	
Grants and contributions not restricted to specific programs				1,994,851	
Unrestricted investment earnings				411,777	
Miscellaneous				137,592	
<b>Total general revenues</b>				<b>\$ 8,260,636</b>	
<b>Change in net assets</b>				<b>\$ 999,310</b>	
<b>Net Assets - Beginning</b>				<b>64,683,957</b>	
<b>Net Assets - Ending</b>				<b>\$ 65,683,267</b>	

## **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, 2006**

	<b>General</b>	<b>Road and Bridge</b>	<b>Social Services</b>	<b>Total Governmental Funds</b>
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 4,976,451	\$ 392,763	\$ 489,589	\$ 5,858,803
Petty cash and change funds	16,935	100	-	17,035
Investments	254,934	1,861,102	1,269,894	3,385,930
Taxes receivable				
Prior	59,055	19,322	17,613	95,990
Accounts receivable	87,453	6,144	34,719	128,316
Accrued interest receivable	38,742	11,674	10,416	60,832
Loans receivable	102,024	-	-	102,024
Due from other funds	2,472	-	-	2,472
Due from other governments	268,258	3,035,891	259,810	3,563,959
Inventories	-	369,504	-	369,504
Prepaid items	5,972	-	-	5,972
<b>Total Assets</b>	<b>\$ 5,812,296</b>	<b>\$ 5,696,500</b>	<b>\$ 2,082,041</b>	<b>\$ 13,590,837</b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 201,586	\$ 18,718	\$ 242,150	\$ 462,454
Salaries payable	76,776	19,706	19,812	116,294
Contracts payable	-	90,007	-	90,007
Due to other funds	-	-	2,472	2,472
Due to other governments	16,839	11,088	74,433	102,360
Deferred revenue - unavailable	99,656	2,927,850	27,903	3,055,409
Deferred revenue - unearned	-	-	96,808	96,808
Customer deposits	2,973	-	-	2,973
<b>Total Liabilities</b>	<b>\$ 397,830</b>	<b>\$ 3,067,369</b>	<b>\$ 463,578</b>	<b>\$ 3,928,777</b>
<b>Fund Balances</b>				
Reserved for				
Inventories	\$ -	\$ 369,504	\$ -	\$ 369,504
Loans receivable	102,024	-	-	102,024
Prepaid items	5,972	-	-	5,972
Law library	12,657	-	-	12,657
Recorder's unallocated funds	66,767	-	-	66,767
Recorder's equipment purchases	91,815	-	-	91,815
E-911	204,814	-	-	204,814
Road projects	-	9,771	-	9,771
Economic development revolving loan	86,839	-	-	86,839
Unreserved				
Designated for future expenditures	69,106	600,000	-	669,106
Designated for cash flows	2,510,000	842,000	592,139	3,944,139
Designated for compensated absences	449,275	147,964	103,062	700,301
Undesignated	1,815,197	659,892	923,262	3,398,351
<b>Total Fund Balances</b>	<b>\$ 5,414,466</b>	<b>\$ 2,629,131</b>	<b>\$ 1,618,463</b>	<b>\$ 9,662,060</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,812,296</b>	<b>\$ 5,696,500</b>	<b>\$ 2,082,041</b>	<b>\$ 13,590,837</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2006**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$ 9,662,060</b>
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.	53,708,099
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	3,055,409
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)
Compensated absences	(700,301)
	<u>(742,301)</u>
<b>Net assets of governmental activities (Exhibit 1)</b>	<b><u>\$ 65,683,267</u></b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT 5**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Taxes	\$ 3,370,976	\$ 1,108,699	\$ 975,120	\$ 5,454,795
Licenses and permits	61,816	845	-	62,661
Intergovernmental	2,620,132	3,264,766	2,870,779	8,755,677
Charges for services	1,991,636	126,955	12,893	2,131,484
Fines and forfeits	21,140	-	-	21,140
Gifts and contributions	3,714	-	-	3,714
Interest earnings	324,938	43,673	43,166	411,777
Miscellaneous	335,235	9,412	16,157	360,804
<b>Total Revenues</b>	<b>\$ 8,729,587</b>	<b>\$ 4,554,350</b>	<b>\$ 3,918,115</b>	<b>\$ 17,202,052</b>
<b>Expenditures</b>				
<b>Current</b>				
General government	\$ 3,369,047	\$ -	\$ -	\$ 3,369,047
Public safety	2,533,155	-	-	2,533,155
Transportation	217,041	4,333,315	-	4,550,356
Sanitation	983,862	-	-	983,862
Human services	-	-	4,219,957	4,219,957
Health	1,483,155	-	-	1,483,155
Culture and recreation	273,850	-	-	273,850
Conservation of natural resources	361,151	-	-	361,151
Economic development	48,567	-	-	48,567
<b>Debt service</b>				
Principal	-	143,339	-	143,339
Interest	-	8,086	-	8,086
<b>Total Expenditures</b>	<b>\$ 9,269,828</b>	<b>\$ 4,484,740</b>	<b>\$ 4,219,957</b>	<b>\$ 17,974,525</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (540,241)</b>	<b>\$ 69,610</b>	<b>\$ (301,842)</b>	<b>\$ (772,473)</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	10,050	14,819	-	24,869
<b>Net Change in Fund Balances</b>	<b>\$ (530,191)</b>	<b>\$ 84,429</b>	<b>\$ (301,842)</b>	<b>\$ (747,604)</b>
<b>Fund Balances - January 1</b>	<b>5,944,657</b>	<b>2,408,752</b>	<b>1,920,305</b>	<b>10,273,714</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>135,950</b>	<b>-</b>	<b>135,950</b>
<b>Fund Balances - December 31</b>	<b>\$ 5,414,466</b>	<b>\$ 2,629,131</b>	<b>\$ 1,618,463</b>	<b>\$ 9,662,060</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Net change in fund balances - total governmental funds (Exhibit 5)** **\$ (747,604)**

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

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

Deferred revenues - December 31	\$ 3,055,409	
Deferred revenues - January 1	(1,764,239)	1,291,170

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

Expenditures for general capital assets	\$ 2,237,704	
Net book value of disposed assets	(205,283)	
Current year depreciation	(1,752,094)	280,327

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

Capital lease repayment		143,339
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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 inventories	\$ 135,950	
Change in compensated absences	(103,872)	32,078

**Change in net assets of governmental activities (Exhibit 2)** **\$ 999,310**

**FIDUCIARY FUNDS**

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HOUSTON COUNTY  
CALEDONIA, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2006

	<u>Agency</u>
<b><u>Assets</u></b>	
Cash and pooled investments	<u>\$ 1,186,445</u>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 109,414
Due to other governments	<u>1,077,031</u>
<b>Total Liabilities</b>	<u>\$ 1,186,445</u>

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006

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, 2006. 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.

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
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**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government and its 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, (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.

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.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

C. Measurement Focus and Basis of Accounting

The government-wide 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

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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, 2006, 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 2006 were \$324,938.

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.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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 (FIFO) 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.

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 market value at the date of donation.

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

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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.

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.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

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 effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as an other 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.

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.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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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	\$ 5,858,803
Petty cash and change funds	17,035
Investments	3,385,930
Statement of fiduciary net assets	
Cash and pooled investments	<u>1,186,445</u>
 Total Cash and Investments	 <u><u>\$ 10,448,213</u></u>

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, 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.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2006, the County does not have any deposits exposed to custodial credit risk.

b. Investments

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

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

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

The County does not have a policy regarding investment maturity limits.

Investment Type	Fair Value	Less Than 1 Year	2 - 3 Years	3 - 13 Years
Federal Home Loan Bank	\$ 3,107,651	\$ 24,844	\$ 1,293,012	\$ 1,789,795
Federal Home Loan Mortgage Corporation	513,492	-	247,111	266,381
Federal National Mortgage Corporation	350,537	-	-	350,537
Government National Mortgage Association Pool	10,004	-	-	10,004
Small Business Administration loan	42,947	-	42,947	-
Negotiable certificates of deposit	2,806,172	390,000	879,000	1,537,172
 Total Investments	 \$ 6,830,803	 \$ 414,844	 \$ 2,462,070	 \$ 3,953,889

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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:

	<u>Credit Rating</u>	<u>Rating Agency</u>	<u>Fair Value</u>
Federal Home Loan Bank	AAA	Standard & Poor's	\$ 3,107,651
Federal Home Loan Mortgage Corporation	A-1+	Standard & Poor's	513,492
Federal National Mortgage Corporation	AAA	Standard & Poor's	350,537
Small Business Administration Loan	AAA	Standard & Poor's	42,947

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 does not have a policy on custodial credit risk. At December 31, 2006, none of Houston County's investments were subject to custodial credit risk.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County's investment policy does not currently address this risk. Investments in any one issuer that represent five percent or more of the County's investments are as follows:

<u>Issuer</u>	<u>Reported Amount</u>
Federal Home Loan Bank	\$ 3,107,651
Federal Home Loan Mortgage Corporation	513,492
Federal National Mortgage Corporation	350,537

2. Receivables

Receivables as of December 31, 2006, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Accounts receivable, gross	\$ 325,059
Less: allowance for social services uncollectible	<u>(196,743)</u>
Net Accounts Receivable	<u>\$ 128,316</u>

The loans receivable balance of \$102,024 includes \$93,950, which is not scheduled for collection in the subsequent year.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 396,046	\$ 227,756	\$ -	\$ 623,802
Land - infrastructure right-of-way	1,352,266	-	-	1,352,266
Land improvements	185,490	64,380	-	249,870
Construction in progress - infrastructure	4,359,889	257,787	4,196,652	421,024
<b>Total capital assets not depreciated</b>	<b>\$ 6,293,691</b>	<b>\$ 549,923</b>	<b>\$ 4,196,652</b>	<b>\$ 2,646,962</b>
Capital assets depreciated				
Buildings	\$ 1,492,106	\$ -	\$ 35,264	\$ 1,456,842
Building improvements	989,754	37,071	-	1,026,825
Other improvements	177,103	14,364	-	191,467
Machinery, furniture, and equipment	4,171,302	795,447	392,078	4,574,671
Infrastructure	76,322,309	5,120,752	435,672	81,007,389
<b>Total capital assets depreciated</b>	<b>\$ 83,152,574</b>	<b>\$ 5,967,634</b>	<b>\$ 863,014</b>	<b>\$ 88,257,194</b>
Less: accumulated depreciation for				
Buildings	\$ 659,991	\$ 28,307	\$ 10,344	\$ 677,954
Building improvements	480,672	20,104	-	500,776
Other improvements	40,385	3,734	-	44,119
Machinery, furniture, and equipment	1,838,830	342,652	270,929	1,910,553
Infrastructure	32,998,615	1,357,297	293,257	34,062,655
<b>Total accumulated depreciation</b>	<b>\$ 36,018,493</b>	<b>\$ 1,752,094</b>	<b>\$ 574,530</b>	<b>\$ 37,196,057</b>
<b>Total capital assets depreciated, net</b>	<b>\$ 47,134,081</b>	<b>\$ 4,215,540</b>	<b>\$ 288,484</b>	<b>\$ 51,061,137</b>
Governmental Activities Capital Assets, Net	<b>\$ 53,427,772</b>	<b>\$ 4,765,463</b>	<b>\$ 4,485,136</b>	<b>\$ 53,708,099</b>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General government	\$ 84,377
Public safety	60,441
Highways and streets, including depreciation of infrastructure assets	1,586,158
Sanitation	14,664
Culture and recreation	1,091
Economic development	5,363
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$ 1,752,094</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2006, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Social Services	Fees for services
		\$ 2,472

C. Liabilities

1. Operating Leases

The County leases Extension Office space under a noncancelable operating lease. The cost for the lease was \$9,261 for the year ended December 31, 2006. The future minimum lease payments for the lease are as follows:

Year Ending December 31	Amount
2007	\$ 9,261

2. 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, 2006, are \$46,265. The loan payments will be made in the General Fund.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

2. Loans Payable (Continued)

Debt service requirements at December 31, 2006, were as follows:

<u>Year Ending December 31</u>	<u>State Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2010 - 2014	\$ 25,333	\$ 3,617
2015 - 2016	16,667	648
Total	<u>\$ 42,000</u>	<u>\$ 4,265</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital leases	\$ 143,339	\$ -	\$ 143,339	\$ -	\$ -
Loans payable	42,000	-	-	42,000	-
Compensated absences	596,429	103,872	-	700,301	36,389
Long-Term Liabilities	<u>\$ 781,768</u>	<u>\$ 103,872</u>	<u>\$ 143,339</u>	<u>\$ 742,301</u>	<u>\$ 36,389</u>

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). The PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and 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.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates are covered by the Public Employees Correctional Fund.

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

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years of service 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 Public Employees Retirement Fund members whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at [www.mnpera.org](http://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. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members are required to contribute 7.00 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

	<u>2006</u>	<u>2007</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.25
Public Employees Police and Fire Fund	10.50	11.70
Public Employees Correctional Fund	8.75	8.75

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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3. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

The County's contributions for the years ending December 31, 2006, 2005, and 2004, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2006	\$ 272,291	\$ 56,669	\$ 37,771
2005	234,998	50,532	35,631
2004	230,008	50,265	32,943

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

4. Summary of Significant Contingencies and Other Items

A. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$390,000 and \$400,000 per claim in 2006 and 2007, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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.

B. 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 2006.

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.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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

C. 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 \$3,200 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 \$90,893 to the Workforce Development.

The Southeast Minnesota Community Action Council (SEMCCAC) 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 \$26,158 to SEMCCAC.

The Southeastern Minnesota Narcotics Task Force provides drug enforcement services to several counties. During the year, the County paid \$5,000 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 \$95,506 to the Library.

The Minnesota Counties Computer Cooperative (MCCC) provides computer programming services to several Minnesota counties. During the year, Houston County paid \$72,655 to the MCCC.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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

D. 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 2006, 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.

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

E. Subsequent Event

Flood

In the summer of 2007, Houston County incurred a natural disaster due to flooding. The resulting repairs to infrastructure were major to the County. The County was declared a natural disaster by the federal government.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**Schedule 1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes	\$ 3,382,233	\$ 3,382,233	\$ 3,370,976	\$ (11,257)
Licenses and permits	48,715	48,715	61,816	13,101
Intergovernmental	2,113,479	2,113,479	2,620,132	506,653
Charges for services	1,950,435	1,950,435	1,991,636	41,201
Fines and forfeits	18,000	18,000	21,140	3,140
Gifts and contributions	-	-	3,714	3,714
Investment earnings	126,600	126,600	324,938	198,338
Miscellaneous	266,945	266,945	335,235	68,290
<b>Total Revenues</b>	<b>\$ 7,906,407</b>	<b>\$ 7,906,407</b>	<b>\$ 8,729,587</b>	<b>\$ 823,180</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 201,767	\$ 201,767	\$ 272,789	\$ (71,022)
Courts	34,500	34,500	18,925	15,575
County auditor	204,264	204,264	200,984	3,280
License bureau	82,018	82,018	81,331	687
County treasurer	125,181	125,181	122,570	2,611
County assessor	320,542	320,542	319,088	1,454
Elections	70,740	70,740	242,155	(171,415)
Data processing	311,747	311,747	293,396	18,351
Personnel	134,728	134,728	136,644	(1,916)
Attorney	228,513	228,513	229,391	(878)
Law library	22,000	22,000	29,860	(7,860)
Recorder	177,129	177,129	198,986	(21,857)
Surveyor	183,690	183,690	168,283	15,407
Planning and zoning	226,243	226,243	197,389	28,854
Buildings and plant	227,587	227,587	565,116	(337,529)
Veterans service officer	88,891	88,891	97,529	(8,638)
Other general government	222,000	222,000	194,611	27,389
<b>Total general government</b>	<b>\$ 2,861,540</b>	<b>\$ 2,861,540</b>	<b>\$ 3,369,047</b>	<b>\$ (507,507)</b>
<b>Public safety</b>				
Sheriff	\$ 988,995	\$ 988,995	\$ 1,059,688	\$ (70,693)
Boat and water safety	8,708	8,708	7,782	926
Coroner	48,000	48,000	37,321	10,679
E-911 system	109,952	109,952	153,234	(43,282)
Law enforcement center	726,870	726,870	979,238	(252,368)
Community corrections	235,534	235,534	240,123	(4,589)
Civil defense	48,211	48,211	55,769	(7,558)
<b>Total public safety</b>	<b>\$ 2,166,270</b>	<b>\$ 2,166,270</b>	<b>\$ 2,533,155</b>	<b>\$ (366,885)</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

***Schedule 1  
(Continued)***

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Transportation</b>				
Airport	\$ 26,565	\$ 26,565	\$ 217,041	\$ (190,476)
<b>Sanitation</b>				
Solid waste	\$ 483,259	\$ 483,259	\$ 555,517	\$ (72,258)
Recycling	346,890	346,890	428,345	(81,455)
<b>Total sanitation</b>	<b>\$ 830,149</b>	<b>\$ 830,149</b>	<b>\$ 983,862</b>	<b>\$ (153,713)</b>
<b>Health</b>				
Nursing service	\$ 1,448,434	\$ 1,448,434	\$ 1,468,744	\$ (20,310)
Transportation	10,000	10,000	10,000	-
Health center	4,250	4,250	4,411	(161)
<b>Total health</b>	<b>\$ 1,462,684</b>	<b>\$ 1,462,684</b>	<b>\$ 1,483,155</b>	<b>\$ (20,471)</b>
<b>Culture and recreation</b>				
Historical society	\$ 36,200	\$ 36,200	\$ 36,200	\$ -
Parks	26,863	26,863	51,708	(24,845)
Regional library	95,506	95,506	95,506	-
Other	76,120	76,120	90,436	(14,316)
<b>Total culture and recreation</b>	<b>\$ 234,689</b>	<b>\$ 234,689</b>	<b>\$ 273,850</b>	<b>\$ (39,161)</b>
<b>Conservation of natural resources</b>				
Cooperative extension	\$ 161,565	\$ 161,565	\$ 156,466	\$ 5,099
Soil and water conservation	146,000	146,000	146,000	-
Agricultural society/County fair	18,000	18,000	31,598	(13,598)
Water planning	23,147	23,147	27,087	(3,940)
<b>Total conservation of natural resources</b>	<b>\$ 348,712</b>	<b>\$ 348,712</b>	<b>\$ 361,151</b>	<b>\$ (12,439)</b>
<b>Economic development</b>				
Community development	\$ 47,640	\$ 47,640	\$ 46,317	\$ 1,323
Other	2,350	2,350	2,250	100
<b>Total economic development</b>	<b>\$ 49,990</b>	<b>\$ 49,990</b>	<b>\$ 48,567</b>	<b>\$ 1,423</b>
<b>Total Expenditures</b>	<b>\$ 7,980,599</b>	<b>\$ 7,980,599</b>	<b>\$ 9,269,828</b>	<b>\$ (1,289,229)</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**Schedule 1**  
**(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Excess of Revenues Over (Under) Expenditures</b>	\$ (74,192)	\$ (74,192)	\$ (540,241)	\$ (466,049)
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of assets	-	-	10,050	10,050
<b>Net Change in Fund Balance</b>	\$ (74,192)	\$ (74,192)	\$ (530,191)	\$ (455,999)
<b>Fund Balance - January 1</b>	<u>5,944,657</u>	<u>5,944,657</u>	<u>5,944,657</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u>\$ 5,870,465</u>	<u>\$ 5,870,465</u>	<u>\$ 5,414,466</u>	<u>\$ (455,999)</u>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,116,537	\$ 1,116,537	\$ 1,108,699	\$ (7,838)
Licenses and permits	1,000	1,000	845	(155)
Intergovernmental	4,584,843	4,584,843	3,264,766	(1,320,077)
Charges for services	155,000	155,000	126,955	(28,045)
Investment earnings	25,200	25,200	43,673	18,473
Miscellaneous	28,850	28,850	9,412	(19,438)
<b>Total Revenues</b>	<b>\$ 5,911,430</b>	<b>\$ 5,911,430</b>	<b>\$ 4,554,350</b>	<b>\$ (1,357,080)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Transportation</b>				
Administration	\$ 191,825	\$ 191,825	\$ 203,000	\$ (11,175)
Maintenance	1,665,279	1,665,279	1,674,461	(9,182)
Construction	3,206,605	3,206,605	1,715,762	1,490,843
Equipment maintenance and shop	971,364	971,364	740,092	231,272
<b>Total transportation</b>	<b>\$ 6,035,073</b>	<b>\$ 6,035,073</b>	<b>\$ 4,333,315</b>	<b>\$ 1,701,758</b>
<b>Debt service</b>				
Principal	-	-	143,339	(143,339)
Interest	-	-	8,086	(8,086)
<b>Total Expenditures</b>	<b>\$ 6,035,073</b>	<b>\$ 6,035,073</b>	<b>\$ 4,484,740</b>	<b>\$ 1,550,333</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (123,643)</b>	<b>\$ (123,643)</b>	<b>\$ 69,610</b>	<b>\$ 193,253</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of assets	-	-	14,819	14,819
<b>Net Change in Fund Balance</b>	<b>\$ (123,643)</b>	<b>\$ (123,643)</b>	<b>\$ 84,429</b>	<b>\$ 208,072</b>
<b>Fund Balance - January 1</b>	<b>2,408,752</b>	<b>2,408,752</b>	<b>2,408,752</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>135,950</b>	<b>135,950</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,285,109</b>	<b>\$ 2,285,109</b>	<b>\$ 2,629,131</b>	<b>\$ 344,022</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 970,507	\$ 970,507	\$ 975,120	\$ 4,613
Intergovernmental	2,743,733	2,743,733	2,870,779	127,046
Charges for services	12,175	12,175	12,893	718
Investment earnings	45,000	45,000	43,166	(1,834)
Miscellaneous	9,400	9,400	16,157	6,757
<b>Total Revenues</b>	<b>\$ 3,780,815</b>	<b>\$ 3,780,815</b>	<b>\$ 3,918,115</b>	<b>\$ 137,300</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 759,113	\$ 759,113	\$ 801,696	\$ (42,583)
Social services	3,064,314	3,064,314	3,418,261	(353,947)
<b>Total Expenditures</b>	<b>\$ 3,823,427</b>	<b>\$ 3,823,427</b>	<b>\$ 4,219,957</b>	<b>\$ (396,530)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (42,612)</b>	<b>\$ (42,612)</b>	<b>\$ (301,842)</b>	<b>\$ (259,230)</b>
<b>Fund Balance - January 1</b>	<b>1,920,305</b>	<b>1,920,305</b>	<b>1,920,305</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,877,693</b>	<b>\$ 1,877,693</b>	<b>\$ 1,618,463</b>	<b>\$ (259,230)</b>

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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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 Auditor so that a budget can be prepared. Before October 31, the proposed budget is presented to the Houston County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. 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. Excess of Expenditures Over Appropriations

For the year ended December 31, 2006, expenditures exceeded appropriations in the General Fund by \$1,289,229 and in the Social Service Special Revenue Fund by \$396,530. These over-expenditures were funded by prior year fund equity.

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**SUPPLEMENTARY INFORMATION**

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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 Historic Bluff Country Fund accounts for the monies received and expended by Historic 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**

*Statement 1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>CROOKED CREEK WATERSHED</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 190	\$ 17,754	\$ 17,335	\$ 609
<b><u>Liabilities</u></b>				
Due to other governments	\$ 190	\$ 17,754	\$ 17,335	\$ 609
 <b><u>HEALTH</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 52,240	\$ 144,219	\$ 144,254	\$ 52,205
<b><u>Liabilities</u></b>				
Accounts payable	\$ 52,240	\$ 144,219	\$ 144,254	\$ 52,205
 <b><u>REVOLVING</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 12,660	\$ 3,142,061	\$ 3,138,934	\$ 15,787
<b><u>Liabilities</u></b>				
Due to other governments	\$ 12,660	\$ 3,142,061	\$ 3,138,934	\$ 15,787

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*Statement 1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>SOIL AND WATER CONSERVATION</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 265,191	\$ 672,539	\$ 566,270	\$ 371,460
<b><u>Liabilities</u></b>				
Due to other governments	\$ 265,191	\$ 672,539	\$ 566,270	\$ 371,460
 <b><u>SCHOOL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 97,778	\$ 4,033,254	\$ 3,924,290	\$ 206,742
<b><u>Liabilities</u></b>				
Due to other governments	\$ 97,778	\$ 4,033,254	\$ 3,924,290	\$ 206,742
 <b><u>FAMILY COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 558,152	\$ 286,539	\$ 583,125	\$ 261,566
<b><u>Liabilities</u></b>				
Due to other governments	\$ 558,152	\$ 286,539	\$ 583,125	\$ 261,566

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*Statement 1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 68,985	\$ 17,649,303	\$ 17,661,241	\$ 57,047
<b><u>Liabilities</u></b>				
Accounts payable	\$ 68,985	\$ 57,047	\$ 68,985	\$ 57,047
Due to other funds	-	7,957,623	7,957,623	-
Due to other governments	-	9,634,633	9,634,633	-
<b>Total Liabilities</b>	<b>\$ 68,985</b>	<b>\$ 17,649,303</b>	<b>\$ 17,661,241</b>	<b>\$ 57,047</b>
<b><u>TOWNS AND CITIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 103,830	\$ 4,999,306	\$ 4,896,368	\$ 206,768
<b><u>Liabilities</u></b>				
Due to other governments	\$ 103,830	\$ 4,999,306	\$ 4,896,368	\$ 206,768
<b><u>HISTORIC BLUFF COUNTRY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ (3,211)	\$ 30,608	\$ 27,235	\$ 162
Due from other governments	3,721	-	3,721	-
<b>Total Assets</b>	<b>\$ 510</b>	<b>\$ 30,608</b>	<b>\$ 30,956</b>	<b>\$ 162</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 510	\$ 30,608	\$ 30,956	\$ 162

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**Statement 1**  
**(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>VICTIM SERVICES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 15,739	\$ 43,152	\$ 44,792	\$ 14,099
<b><u>Liabilities</u></b>				
Due to other governments	\$ 15,739	\$ 43,152	\$ 44,792	\$ 14,099
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,171,554	\$ 31,018,735	\$ 31,003,844	\$ 1,186,445
Due from other governments	3,721	-	3,721	-
<b>Total Assets</b>	<b>\$ 1,175,275</b>	<b>\$ 31,018,735</b>	<b>\$ 31,007,565</b>	<b>\$ 1,186,445</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 121,735	\$ 231,874	\$ 244,195	\$ 109,414
Due to other funds	-	7,957,623	7,957,623	-
Due to other governments	1,053,540	22,829,238	22,805,747	1,077,031
<b>Total Liabilities</b>	<b>\$ 1,175,275</b>	<b>\$ 31,018,735</b>	<b>\$ 31,007,565</b>	<b>\$ 1,186,445</b>

## **OTHER SCHEDULES**

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**Schedule 4**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Shared Revenue**

**State**

Highway users tax	\$	2,578,404
HACA		989,771
Market value credit		843,116
PERA rate reimbursement		23,703
Disparity reduction aid		138,261
E-911		95,619
Police aid		50,977
		_____

**Total Shared Revenue** **\$ 4,719,851**

**Reimbursement for Services**

Minnesota Department of Human Services	\$	900,135
		_____

**Payments**

**Local**

Local contribution	\$	40,507
Payments in lieu of taxes		266,586
		_____

**Total Payments** **\$ 307,093**

**Grants**

**State**

Minnesota Department of		
Corrections	\$	81,678
Health		71,796
Natural Resources		56,020
Human Services		1,147,335
Veterans Services		2,800
Water and Soil Resources Board		86,514
Office of Environmental Assistance		49,079
Peace Officer Standards and Training Board		3,979
		_____

**Total State** **\$ 1,499,201**

**Federal**

Department of		
Agriculture	\$	55,804
Justice		5,611
Transportation		455,406
Homeland Security		44,483
Health and Human Services		575,305
Environmental Protection Agency		2,184
Election Assistance Commission		190,604
		_____

**Total Federal** **\$ 1,329,397**

**Total Grants** **\$ 2,828,598**

**Total Intergovernmental Revenue** **\$ 8,755,677**

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*Schedule 5*

**TAX CAPACITY, TAX RATES, LEVIES, AND PERCENTAGE OF COLLECTIONS  
FOR CALENDAR YEARS 2005 THROUGH 2007**

	Tax Year 2005		Tax Year 2006		Tax Year 2007	
	Net Tax Capacity	Tax Capacity Rate Percent (%)	Net Tax Capacity	Tax Capacity Rate Percent (%)	Net Tax Capacity	Tax Capacity Rate Percent (%)
<b>Tax Capacity</b>						
Real property	\$ 10,990,349		\$ 12,224,102		\$ 13,531,276	
Personal property	275,489		269,973		279,763	
Tax increment financing	(152,958)		(140,092)		(152,630)	
<b>Net Tax Capacity</b>	<b>\$ 11,112,880</b>		<b>\$ 12,353,983</b>		<b>\$ 13,658,409</b>	
<b>Tax Levied for County</b>						
County Revenue	\$ 3,582,915	32.696	\$ 3,901,411	32.125	\$ 4,386,195	32.600
Road and Bridge	1,122,528	10.101	1,304,136	10.556	1,466,186	10.735
Human Services	1,135,557	10.218	1,146,453	9.280	1,065,119	7.798
<b>Net Tax Levy</b>	<b>\$ 5,841,000</b>	<b>53.015</b>	<b>\$ 6,352,000</b>	<b>51.961</b>	<b>\$ 6,917,500</b>	<b>51.133</b>
	<b>Tax Capacity</b>	<b>Market Value</b>	<b>Tax Capacity</b>	<b>Market Value</b>	<b>Tax Capacity</b>	<b>Market Value</b>
<b>Taxable Valuations</b>						
Light and Power Tax						
Transmission lines	\$ 6,080	\$ 304,000	\$ 6,202	\$ 310,100	\$ 6,098	\$ 304,900
Distribution lines	346	17,300	354	17,700	376	18,800
<b>Total Taxable Valuations - Light and Power</b>	<b>\$ 6,426</b>	<b>\$ 321,300</b>	<b>\$ 6,556</b>	<b>\$ 327,800</b>	<b>\$ 6,474</b>	<b>\$ 323,700</b>
<b>Light and Power Tax Levy</b>						
Transmission lines	\$ 7,318	\$ 326	\$ 7,204	\$ 434	\$ 6,804	\$ 558
Distribution lines	416	18	412	24	420	34
<b>Total Light and Power Tax Levy</b>	<b>\$ 7,734</b>	<b>\$ 344</b>	<b>\$ 7,616</b>	<b>\$ 458</b>	<b>\$ 7,224</b>	<b>\$ 592</b>
<b>Percentage of Tax Collections for All Purposes</b>	<b>99.05%</b>		<b>98.99%</b>			



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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*Schedule 6*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses unqualified opinions on the basic financial statements of Houston County.
- B. A significant deficiency in internal control was disclosed by the audit of financial statements of Houston County and is 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 Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133." It is a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for Houston County expresses a qualified opinion.
- F. Findings relative to a major federal award program for Houston County were reported as required by Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- |                                    |              |
|------------------------------------|--------------|
| Child Care Development Block Grant | CFDA #93.575 |
| Title XX                           | CFDA #93.667 |
| Help America Vote Act              | CFDA #90.401 |
| Highway Planning and Construction  | CFDA #20.205 |
- 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

ITEMS ARISING THIS YEAR

06-1 Audit Adjustments

A control deficiency 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 misstatements of the financial statements on a timely basis. Statement on Auditing Standards No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

Adjustments were made to reclassify various revenues in the Social Services Special Revenue Fund and in the General Fund, expenditures in the Social Services Special Revenue Fund, and also investments in the Road and Bridge Special Revenue Fund. Adjustments were needed in the General Fund to record receivables, record market value change on investments, record additional payables, and also to adjust deferred revenue for grants. The Social Services Special Revenue Fund required adjustments to record additional deferred revenues.

Proposed audit adjustments are 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.

We recommend the County establish internal procedures to ensure the trial balances are correct.

06-2 Investment Oversight

In Houston County, the Treasurer does the purchasing of investments for the County. Investments are not reviewed or approved by anyone other than the person doing the investing.

We recommend someone other than the person who makes the investment purchase periodically review investment purchases. The investments should be reviewed for both legality and appropriateness.

06-3 Financial Statement Preparation

The County is required to have knowledgeable financial management staff and clearly documented procedures for executing accounting and financial reporting activities. The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with generally accepted accounting principles requires internal controls over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

The County had the Office of the State Auditor assist in the preparation of the draft financial statements and notes, without the controls of clearly documented procedures for executing accounting and financial reporting activities. Significant staffing constraints within County financial management staff limit its ability to conduct the annual financial statement preparation process and contribute to lax procedures and controls for preparing and safeguarding financial data. Uniform policies and procedures for the financial statement preparation process are critical for ensuring that accounting personnel can produce complete, accurate, and consistent financial statements in a timely manner. In order for the Office of the State Auditor to assist in the preparation of the draft financial statements and notes, and maintain his/her independence, Houston County must take responsibility for the statements and notes.

We recommend Houston County have someone that possesses the necessary accounting expertise to prevent, detect, and correct a potential misstatement in the financial statements or notes drafted by the auditor. Also, the County should have clearly documented procedures for executing accounting and financial reporting activities.

PREVIOUSLY REPORTED ITEM RESOLVED

**Segregation of Duties (05-1)**

Within the County Treasurer's Office and several small departments throughout the County, there was not a complete segregation of duties. The Information Systems Supervisor had access to all aspects of the computer system and also access to certain Treasurer duties. The smaller departments generally have one person collecting fees and recording those collections. The fees from those departments are deposited with the County Treasurer.

**Resolution**

The Information Systems Supervisor no longer performs Treasury duties.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

A. COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

05-02 Failure to Perform Case Redetermination - Child Care Development Block Grant (CFDA #93.575)

Questioned Costs: \$173,880

Houston County did not obtain proper birth verification for 9 case files, income verification for 3 case files, contracts with providers were missing for 13 case files, and the County failed to redetermine 15 cases in a timely manner, causing incorrect co-payment amounts and noncompliance with program requirements. There were a total of 41 case files tested. The results of the testing indicate that there are questioned costs of \$173,880 when projected to the population. Birth certificates and income verification forms are required as part of eligibility documentation. Contracts with providers are required to be signed by both parties. The redetermination of child care cases is required every six months to determine if the participant is still eligible for the program; any changes within the household affects the co-payment calculation.

The Social Services Department in Houston County should prepare an eligibility checklist and maintain the participant files with the required information in order to comply with program requirements. The financial workers should make sure that the required information is documented in the child care case files. Redetermination dates should be scheduled, performed, and documented properly in the case files. This would prevent improper co-payment amounts from being charged.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Bonnie Goetzinger, Financial Assistance Supervisor*

Corrective Action Planned:

*The workers are now using green sheets to mark and/or divide and label the income, verifications, latest review, etc. We now have some part-time clerical that are going through all the files and verifying that verifications are in the files. An eligibility checklist is being created and will be given to the childcare workers as soon as it is proofed by all.*

Anticipated Completion Date:

*This should be completed with any missing verification received by the end of 2007.*

B. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

05-3 Controls Over Child Care Case Files (CFDA #93.575)

During our review of the Child Care program control procedures, we found a lack of controls for monitoring case files. This information is needed to determine eligibility requirements. There is no system in place to notify caseworkers when redeterminations are needed, other than to manually look at the application or old redetermination in the individual case file to determine if redetermination is needed. Some of the case files tested had review notes, but they were not being fixed or followed up on. Fifteen of 41 case files had not been properly reviewed every six months.

We recommend the County set up controls that will let the caseworker know when redeterminations are needed as well as any other information needed for the Child Care program. A review process should be established, and a follow-up should be performed to ensure that proper documentation has been obtained. We also recommend the County create a checklist for eligibility documentation requirements.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Bonnie Goetzinger, Financial Assistance Supervisor*

Corrective Action Planned:

*Houston County now have a master listing of the caseloads with the client's names, address, and the review dates listed. Labels have been printed for the workers from this list. The clerical is helping to get this done timely. There is no reason a redetermination should be missed now.*

*To prevent wrong co-payment calculations, as soon as the bulletin is available, it is printed for the workers.*

*The Financial Supervisor will pull four to five cases monthly to check for timely reviews and documentation. This will be done at the end of each month and the workers will have until the 10th of the month to follow up.*

*In addition to the things listed above, the Financial Unit is going to get a Case Aide whose main priority will be Childcare. We believe this will solve a lot of our problems.*

Anticipated Completion Date:

*This should be completed with any missing verification received by the end of 2007.*

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

**A. MANAGEMENT PRACTICES**

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

98-1 and  
01-2      Disaster Recovery Plan

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 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 off-site back-up 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.

The County has one security setting on the AS/400 set below the recommended minimums for the AS/400. The QLMTDEVSSN setting is set at 0. This system determines whether a user can be signed on at more than one workstation at the same time. The recommended setting value is 1.

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. We also recommend the County review its security settings for its AS/400 and document the need not to follow recommended security levels and what other procedures it has in place to provide the needed security.

Client's Response:

*Within the next year, a comprehensive disaster recovery plan will be developed for restoring all of the County's computer systems.*

ITEM ARISING THIS YEAR

06-4

Data Private Information

As part of the payroll process, the payroll tape is being brought to Merchants Bank of Caledonia without having the floppy disk encrypted. The disk contains data private information taken off the Paymate Payroll System, which needs to be communicated to the bank for the direct deposit for the County employees. Merchants Bank does not have a secure website for the County to send the information electronically, so a diskette is being used.

We recommend the County have all data private information encrypted or password protected in case of loss or theft, which includes all payroll tapes being brought to the bank. Otherwise the County could use a bank for the payroll process that has a secure website for communication of data private information.

Client's Response:

*Houston County will work with Merchants Bank to develop a protocol to password protect or encrypt the payroll data taken to Merchants Bank. The County will also pursue discussions with Merchants Bank to develop a system where this information can be electronically transmitted through a secured website.*

*If this cannot be accomplished with Merchants Bank, the County may need to consider using another bank.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Consolidated General Ledger (00-4)**

Separate general ledgers were maintained by the County Auditor's Office and the Social Services Department. Each department entered its detailed transactions in the corresponding general ledger. The detailed financial transactions recorded in the Social Services Department ledger were interfaced with the County's main general ledger, maintained by the County Auditor's Office, as "batched" totals with no detail information.

**Resolution**

The client has consolidated the general ledgers.

**Revolving Fund Cash Balance (05-4)**

As of December 31, 2005, the Revolving Agency Fund cash balance was \$12,660.49, and the account activity report cash balance was \$51,845.08. Manual warrants were entered into the Integrated Financial System but not the cash credits. The County contacted TriMin to get the issue resolved but did not follow up with them to ensure the correction was made. Therefore, the Treasurer's cash trial balance and account activity report cash balance were out of balance.

**Resolution**

The client corrected the problem, and the issue was not noted this year.

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the County Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

**Schedule 6**  
***(Continued)***

If applicable for Houston County, GASB Statements 43 and 45 would be implemented for the years ending December 31, 2007 and 2008, respectively.

Client's Response:

*The County will retain an actuary to comply with the requirements of the various GASB Statements with respect to OPEB.*

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## **OTHER REQUIRED REPORTS**

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REBECCA OTTO  
STATE AUDITOR

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

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, 2006, and have issued our report thereon dated December 11, 2007. 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 of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record,

process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 06-1 to 06-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Houston County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 06-1 to be a material weakness.

#### 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 Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

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

Also included in the Schedule of Findings and Questioned Costs are management practices comments and an other item for consideration. We believe these recommendations and information to be of benefit to Houston County, and they are reported for that purpose.

Houston County's written responses to the management practices comments and other item for consideration have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of 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*

*/s/Greg Hierlinger*

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 11, 2007

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REBECCA OTTO  
STATE AUDITOR

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

Board of County Commissioners  
Houston County

### Compliance

We have audited the compliance of Houston County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. 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 on the County's compliance with those requirements.

As described in item 05-2 in the accompanying Schedule of Findings and Questioned Costs, Houston County did not comply with requirements regarding eligibility that are applicable to its Child Care Development Block Grant (CFDA #93.575). Compliance with such requirements is necessary, in our opinion, for Houston County to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Houston County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

#### Internal Control Over Compliance

The 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, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in Houston County's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 05-3 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 05-3 to be a material weakness.

Schedule of Expenditures of Federal Awards

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, 2006, and have issued our report thereon dated December 11, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Houston County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Houston County's written corrective action plans to the findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plans and, accordingly, we express no opinion on them.

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

December 11, 2007

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

Schedule 7

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 51,974
Passed Through Minnesota Department of Human Services Matching Grants for Food Stamp Program	10.561	3,830
<b>Total U.S. Department of Agriculture</b>		<b>\$ 55,804</b>
<b>U.S. Department of Justice</b>		
Direct Bullet Proof Vest Partnership Program	16.670	<b>\$ 5,611</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Airport Improvement Program	20.106	\$ 177,227
Highway Planning and Construction	20.205	192,276
State and Community Highway Safety	20.600	69,158
<b>Total U.S. Department of Transportation</b>		<b>\$ 438,661</b>
<b>U.S. Environmental Protection Agency</b>		
Passed Through Minnesota Department of Public Safety State Indoor Radon Grant	66.032	<b>\$ 2,184</b>
<b>U.S. Election Assistance Commission</b>		
Passed Through Minnesota Secretary of State Help America Vote Act Requirement Payments	90.401	\$ 190,604
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	\$ 29,477
Temporary Assistance for Needy Families (TANF)	93.558	17,915
Maternal and Child Health Services Block Grant	93.994	22,045
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families (TANF)	93.558	64,124
Child Care Development Block Grant	93.575	218,957
Child Welfare Services - State Grants	93.645	13,875
Foster Care Title IV-E	93.658	77,537
Social Services Block Grant Title XX	93.667	112,843
Chafee Foster Care Independent Living	93.674	3,640
Community Mental Health Services	93.958	16,116
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 576,529</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*Schedule 7*  
*(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
State Domestic Preparedness Equipment Support Program	97.004	\$ 2,405
Emergency Management Performance Grants	97.042	11,420
Homeland Security Grant	97.067	20,556
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	10,102
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 44,483</b>
<b>Total Federal Awards</b>		<b>\$ 1,313,876</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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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 accounting records for grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, that is, both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred.

The information in this schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

3. Reconciliation to Schedule of Intergovernmental Revenues

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,329,397
Airport Improvement Program grant deferred in 2005 and recognized in 2006	(51,627)
Airport Improvement Program grant received more than 60 days after year-end	57,882
Highway Planning and Construction grant deferred in 2005 and recognized in 2006	(23,986)
State and Community Highway Safety grant received more than 60 days after year-end	986
Chafee Foster Care Independent Living grant received more than 60 days after year-end	1,224
	<hr/>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 1,313,876</u>

4. Pass-Through Grant Numbers

Pass-through grant numbers were not assigned by the pass-through agencies.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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5. Subgrants

During 2006, the County did not pass any federal money to subrecipients.