STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

HOUSTON COUNTY
CALEDONIA, MINNESOTA

YEAR ENDED DECEMBER 31, 2008

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

Year Ended December 31, 2008

Audit Practice Division
Office of the State Auditor
State of Minnesota

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

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CALEDONIA, MINNESOTA

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Introductory Section

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

ORGANIZATION
DECEMBER 31, 2008

			Term Expires
Elected			
Commissioners			
Vice Chair	Larry Graf[1]	District 1	January 2009
Board Member	Larry Connery	District 2	January 2011
Chair	Ann Thompson[2]	District 3	January 2009
Board Member	David Corcoran	District 4	January 2011
Board Member	Thomas Bjerke	District 5	January 2009
Attorney	Suzanne Bublitz[3]		January 2011
Auditor	Char Meiners[3]		January 2011
County Recorder	Beverly Bauer		January 2011
County Sheriff	Doug Ely		January 2011
District Judge	James Fabian		January 2009
Treasurer	Audrey M. Petersen		January 2011
Appointed			
Assessor	Thomas Dybing		December 2008
County Engineer	Brian Pogodzinski		May 2011
Coroner	Regional Medical Center		Indefinite
Court Administrator	Darlene Kuhlers		Indefinite
Finance Director	Casey Bradley		Indefinite
Human Services Director	Beth Wilms		Indefinite
Public Health Nurse	Debra Rock		Indefinite
Veterans Service Officer	Robert Gross		October 2011

[1]Chair 2008
[2]Vice Chair 2008
[3]Interim Appointment

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Financial Section

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STATE OF MINNESOTA
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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, 2008, 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, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.E., Houston County has implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The Management's Discussion and Analysis and required supplementary information 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 statement and schedules 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 September 24, 2009, 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 24, 2009

MANAGEMENT’S DISCUSSION AND ANALYSIS

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008
(Unaudited)

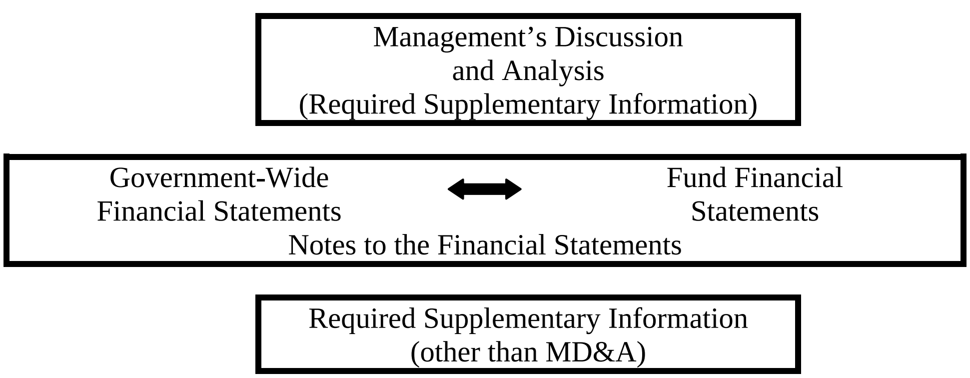
Houston County's discussion and analysis provides an overview of the County's financial activities for the fiscal year ended December 31, 2008. Since this information is designed to focus on current year activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are $65,111,158, of which $54,651,605 is invested in capital assets and $3,590,023 is restricted to specific purposes.
- Houston County's net assets decreased by $258,516 for the year ended December 31, 2008.
- The net cost of governmental activities for the current fiscal year was $10,210,218. The net cost was funded by general revenues, including taxes and grants.
- Governmental funds' fund balances decreased by $2,617,210.

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 schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are interrelated.



There are two government-wide financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Government-wide financial statements start on page 10. 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 12. The fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

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

Reporting the County's Fiduciary Responsibilities

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

THE COUNTY AS A WHOLE

The County's net assets decreased from $65,369,374 to $65,111,158.

Table 1
Net Assets
(in Millions)

	2008		2007	
Current and other assets	$	17.3	$	14.3
Capital assets		54.6		53.9
Total Assets	$	71.9	$	68.2
Long-term debt outstanding	$	4.1	$	1.8
Other liabilities		2.7		1.0
Total Liabilities	$	6.8	$	2.8
Net Assets				
Invested in capital assets	$	54.6	$	53.9
Restricted		3.6		3.1
Unrestricted		6.9		8.4
Total Net Assets	$	65.1	$	65.4

Net assets of the County's governmental activities decreased by 0.4 percent ($65,111,158 compared to $65,369,674).

Table 2
Changes in Net Assets
(in Millions)

	2008	2007
Revenues		
Program revenues		
Fees, fines, charges, and other	$ 2.6	$ 2.2
Operating grants and contributions	13.3	11.5
Capital grants and contributions	0.3	1.7
General revenues		
Property taxes	6.8	6.0
Other taxes and payments in lieu of taxes	0.4	0.3
Grants and contributions	1.9	2.0
Other general revenues	0.7	0.6
Total Revenues	$ 26.0	$ 24.3
Program Expenses		
General government	$ 3.4	$ 3.1
Public safety	3.4	3.0
Transportation	11.3	10.9
Human services	4.5	4.4
Health	1.6	1.5
Sanitation	0.8	0.9
Culture and recreation	0.3	0.3
Conservation of natural resources	0.4	0.4
Economic development	0.6	0.1
Total Program Expenses	$ 26.3	$ 24.6
Increase (Decrease) in Net Assets	$ (0.3)	$ (0.3)

Governmental Activities

The cost of all governmental activities this year was $26,298,766. However, as shown in the Statement of Activities, the amount that the taxpayers ultimately financed for these activities through County property taxes was only $6,852,572, because some of the cost was paid by those who directly benefited from the programs ($2,559,623) or by other governments and organizations that subsidized certain programs with grants and contributions ($13,528,925). The County paid for most of the remaining "public benefit" portion of governmental activities with $9,951,701 in general revenues, primarily property taxes and other revenues, such as interest and general entitlements, resulting in a decrease to net assets of $258,516.

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)

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Transportation	$ 11.3	$ 10.9	$ 2.6	$ 2.1
Human services	4.5	4.4	1.6	1.4
General government	3.4	3.1	2.7	2.4
Public safety	3.4	3.0	2.3	2.3

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, 2008, Houston County's governmental funds reported combined ending fund balances of $5,995,697, a decrease of $2,474,349 in comparison with 2007. The County is reporting an undesignated fund balance of negative $50,624 in 2008. This is primarily due to the flood events that took place in 2007 and 2008 and the way that the reimbursements from other agencies have been treated in the County's financial statements. 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, 2008, unreserved, undesignated fund balance was $268,470, while total fund balance was $4,890,063. 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 2.4 percent of total General Fund expenditures, while total fund balance represents 44.2 percent of the same amount.

The Road and Bridge Special Revenue Fund's fund balance decreased by $2,014,736, for an ending balance of ($260,026). There is no unreserved, undesignated fund balance. The Social Services Special Revenue Fund's fund balance decreased by $79,557 to $1,365,660, of which $534,123, or 39 percent, is unreserved, undesignated.

General Fund Budgetary Highlights

Houston County did not revise its General Fund budget during 2008. For the year ended December 31, 2008, expenditures exceeded appropriations by $1,694,532, with the largest overages in the public safety and economic development functions.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2008, the County had $54,651,605 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 $721,898, or 1.3 percent, over last year.

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

	2008	2007
Land	$ 2.7	$ 2.3
Construction in progress	2.0	1.5
Buildings and improvements	1.9	1.8
Machinery, vehicles, furniture, and equipment	2.7	2.8
Infrastructure	45.3	45.5
Totals	$ 54.6	$ 53.9

This year's major addition was the acquisition of property for the construction of a Public Works facility.

Debt

The County is indebted for a $42,000 loan from the State of Minnesota.

CONTACTING HOUSTON COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the County Finance Director, Casey Bradley, Houston County Courthouse, 304 South Marshall Street, Caledonia, Minnesota 55921.

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, 2008

Assets	
Cash and pooled investments	$ 5,577,153
Petty cash and change funds	17,035
Investments	2,900,552
Taxes receivable	
Prior - net	131,730
Accounts receivable - net	263,517
Accrued interest receivable	59,073
Loan receivable	745,329
Due from other governments	6,052,836
Inventories	443,360
Prepaid items	12,247
Restricted assets	
Cash and pooled investments	1,069,236
Accrued interest receivable	2,296
Capital assets	
Non-depreciable	4,742,001
Depreciable - net of accumulated depreciation	49,909,604
Total Assets	**$ 71,925,969**
Liabilities	
Accounts payable	$ 433,226
Salaries payable	219,809
Contracts payable	94,842
Due to other governments	185,368
Unearned revenue	1,719,244
Customer deposits	3,683
Advance from other governments	3,251,266
Long-term liabilities	
Due within one year	43,142
Due in more than one year	864,231
Total Liabilities	**$ 6,814,811**
Net Assets	
Invested in capital assets	$ 54,651,605
Restricted for	
General government	302,195
Public safety	281,669
Highways and streets	2,632,966
Economic development	373,193
Unrestricted	6,869,530
Total Net Assets	**$ 65,111,158**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Expenses	Program Revenues: Fees, Charges, Fines, and Other	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Change in Net Assets
Functions/Programs					
Primary government					
Governmental activities					
General government	$ 3,385,614	$ 365,332	$ 345,093	$ -	$ (2,675,189)
Public safety	3,360,343	142,541	937,820	-	(2,279,982)
Transportation	11,282,376	362,366	8,039,876	266,313	(2,613,821)
Sanitation	848,636	424,416	27,500	-	(396,720)
Human services	4,479,316	7,696	2,834,672	-	(1,636,948)
Health	1,563,518	1,199,987	372,121	-	8,590
Culture and recreation	344,332	42,285	-	-	(302,047)
Conservation of natural resources	378,522	1,154	-	-	(377,368)
Economic development	612,402	13,846	705,530	-	106,974
Interest	43,707	-	-	-	(43,707)
Total Governmental Activities	**$ 26,298,766**	**$ 2,559,623**	**$ 13,262,612**	**$ 266,313**	**$ (10,210,218)**

General Revenues	
Property taxes	$ 6,852,573
Mortgage registry and deed tax	13,141
Other taxes	107,014
Payments in lieu of tax	297,999
Grants and contributions not restricted to specific programs	1,936,238
Unrestricted investment earnings	392,968
Miscellaneous	351,769
Total general revenues	**$ 9,951,702**
Change in net assets	**$ (258,516)**
Net Assets - Beginning	**65,369,674**
Net Assets - Ending	**$ 65,111,158**

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

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, 2008

	General	Road and Bridge	Social Services	Total
Assets				
Cash and pooled investments	$ 4,160,720	$ 596,118	$ 820,315	$ 5,577,153
Petty cash and change funds	16,935	100	-	17,035
Investments	511,007	1,896,547	492,998	2,900,552
Taxes receivable				
Prior	79,382	31,068	21,280	131,730
Accounts receivable	220,147	2,724	40,646	263,517
Loans receivable	745,329	-	-	745,329
Accrued interest receivable	46,091	8,500	4,482	59,073
Due from other governments	172,852	5,412,319	467,665	6,052,836
Prepaid expense	12,247	-	-	12,247
Inventories	-	443,360	-	443,360
Restricted cash and pooled investments	1,069,236	-	-	1,069,236
Restricted accrued interest receivable	2,296	-	-	2,296
Total Assets	**$ 7,036,242**	**$ 8,390,736**	**$ 1,847,386**	**$ 17,274,364**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 3
(Continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	General	Road and Bridge	Social Services	Total
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 131,280	$ 76,142	$ 225,804	$ 433,226
Salaries payable	138,287	41,503	40,019	219,809
Contracts payable	-	94,842	-	94,842
Due to other governments	54,222	14,002	117,144	185,368
Deferred revenue - unavailable	184,693	5,173,007	13,529	5,371,229
Deferred revenue - unearned	1,634,014	-	85,230	1,719,244
Customer deposits	3,683	-	-	3,683
Advance from other governments	-	3,251,266	-	3,251,266
Total Liabilities	**$ 2,146,179**	**$ 8,650,762**	**$ 481,726**	**$ 11,278,667**
Fund Balances				
Reserved for				
Loans receivable	$ 249,577	$ -	$ -	$ 249,577
Inventories	-	443,360	-	443,360
Prepaid items	12,247	-	-	12,247
Highway projects	-	149,831	-	149,831
Recorder's equipment purchases	167,743	-	-	167,743
Recorder's unallocated fund	134,452	-	-	134,452
Enhanced 911	281,669	-	-	281,669
Economic development	123,616	-	-	123,616
Unreserved				
Designated for future expenditures	69,106	-	-	69,106
Designated for cash flows	3,075,822	-	699,894	3,775,716
Designated for compensated absences	507,361	-	131,643	639,004
Undesignated	268,470	(853,217)	534,123	(50,624)
Total Fund Balances	**$ 4,890,063**	**$ (260,026)**	**$ 1,365,660**	**$ 5,995,697**
Total Liabilities and Fund Balances	**$ 7,036,242**	**$ 8,390,736**	**$ 1,847,386**	**$ 17,274,364**

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2008

Fund balances - total governmental funds (Exhibit 3)		**$ 5,995,697**
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.		54,651,605
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		5,371,229
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)	
Net OPEB obligation	(36,057)	
Compensated absences	(829,316)	(907,373)
Net Assets of Governmental Activities (Exhibit 1)		**$ 65,111,158**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General	Road and Bridge	Social Services	Total
Revenues				
Taxes	$ 4,169,530	$ 1,677,417	$ 1,103,665	$ 6,950,612
Licenses and permits	50,865	1,560	-	52,425
Intergovernmental	3,899,302	8,238,264	3,237,651	15,375,217
Charges for services	1,960,070	294,043	7,696	2,261,809
Fines and forfeits	29,917	-	-	29,917
Gifts and contributions	1,902	-	-	1,902
Investment earnings	257,486	101,013	34,469	392,968
Miscellaneous	399,660	8,714	-	408,374
Total Revenues	**$ 10,768,732**	**$ 10,321,011**	**$ 4,383,481**	**$ 25,473,224**
Expenditures				
Current				
General government	$ 3,567,689	$ -	$ -	$ 3,567,689
Public safety	3,402,051	-	-	3,402,051
Transportation	74,482	11,509,781	-	11,584,263
Sanitation	813,730	-	-	813,730
Human services	-	-	4,463,038	4,463,038
Health	1,552,309	-	-	1,552,309
Culture and recreation	343,241	-	-	343,241
Conservation of natural resources	378,571	-	-	378,571
Economic development	612,402	-	-	612,402
Capital outlay	329,433	-	-	329,433
Debt service				
Principal	-	2,000,000	-	2,000,000
Interest	-	43,707	-	43,707
Total Expenditures	**$ 11,073,908**	**$ 13,553,488**	**$ 4,463,038**	**$ 29,090,434**
Excess of Revenues Over (Under) Expenditures	**$ (305,176)**	**$ (3,232,477)**	**$ (79,557)**	**$ (3,617,210)**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 5
(Continued)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General	Road and Bridge	Social Services	Total
Other Financing Sources (Uses)				
Transfers in	$ -	$ 74,880	$ -	$ 74,880
Transfers out	(74,880)	-	-	(74,880)
Emergency certificate of indebtedness	-	1,000,000	-	1,000,000
Total Other Financing Sources (Uses)	**$ (74,880)**	**$ 1,074,880**	**$ -**	**$ 1,000,000**
Change in Fund Balance	**$ (380,056)**	**$ (2,157,597)**	**$ (79,557)**	**$ (2,617,210)**
Fund Balance - January 1	**5,270,119**	**1,754,710**	**1,445,217**	**8,470,046**
Increase (decrease) in reserved for inventories	**-**	**142,861**	**-**	**142,861**
Fund Balance - December 31	**$ 4,890,063**	**$ (260,026)**	**$ 1,365,660**	**$ 5,995,697**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2008

Net change in fund balances - total governmental funds (Exhibit 5)		**$ (2,617,210)**
Amounts reported for governmental activities in the statement of activities are different because:		
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.		
Deferred revenue - December 31	$ 5,371,229	
Deferred revenue - January 1	(4,804,203)	567,026
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, in the statement of activities, only the gain or loss on the disposal of assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold.		
Expenditures for general capital assets and infrastructure	$ 2,757,020	
Net book value of assets disposed	(214,445)	
Current year depreciation	(1,820,677)	721,898
Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net assets. Also, governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of net assets.		
Proceeds of new debt		
Certificate of emergency indebtedness		(1,000,000)
Principal repayments		
Certificates of emergency indebtedness		2,000,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in compensated absences	$ (37,034)	
Change in net OPEB obligation	(36,057)	
Change in inventories	142,861	69,770
Change in Net Assets of Governmental Activities (Exhibit 2)		**$ (258,516)**

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

FIDUCIARY FUNDS

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2008

		Agency Funds
Assets		
Cash and pooled investments	**$**	**1,881,661**
Liabilities		
Accounts payable	$	151,845
Due to other governments		1,729,816
Total Liabilities	**$**	**1,881,661**

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

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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, 2008. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Houston County was established February 23, 1854, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Houston County (primary government) and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Blended Component Unit

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

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

1. Summary of Significant Accounting Policies

   A. Financial Reporting Entity (Continued)

      Joint Ventures

      The County participates in a joint venture described in Note 5.D. The County also participates in jointly-governed organizations described in Note 5.C.

   B. Basic Financial Statements

      1. Government-Wide Statements

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

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

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, 2008, 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 2008 were $257,486.

   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.

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.

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:

Assets	Years
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.

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.

1. Summary of Significant Accounting Policies (Continued)

E. New Accounting Pronouncement Implemented

Beginning in 2008, Houston County implemented Governmental Accounting Standards Board (GASB), Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.* This statement required the County to calculate and record a net other postemployment benefit obligation (NOPEBO) at December 31, 2008. The NOPEBO is, in general, the cumulative difference between the actuarial required contribution and the actual contributions since the actuarial valuation date of January 1, 2008.

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Road and Bridge Special Revenue Fund had a deficit fund balance of $260,026 as of December 31, 2008. The deficit can be attributed to the timing differences of when the 2007 and 2008 flood expenditures were recorded versus when the FEMA and other Disaster Aid revenues could be recognized.

3. 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	$ 5,577,153
Petty cash and change funds	17,035
Investments	2,900,552
Restricted cash	1,069,236
Statement of fiduciary net assets	
Cash and pooled investments	1,881,661
Total Cash and Investments	$ 11,445,637

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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 at the close of the financial institution's banking day, not covered by insurance or bonds.

Additional 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.

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, 2008, 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;

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) bankers' acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Investment Type	Fair Value	Less Than 1 Year	2 - 3 Years	3 - 13 Years
Federal Home Loan Bank	$ 26,708	$ -	$ 26,708	$ -
Federal Home Loan Mortgage Corporation	1,354,619	-	-	1,354,619
Federal National Mortgage Corporation	100,051			100,051
Government National Mortgage Association Pool	90,623	-	-	90,623
Small Business Administration loan	6,547	6,547	-	-
Fannie Mae	549,002	-	-	549,002
Negotiable certificates of deposit	1,566,800	-	584,641	982,159
Total Investments	$ 3,694,350	$ 6,547	$ 611,349	$ 3,076,454

Credit Risk

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

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

	Credit Rating	Rating Agency	Fair Value
Federal Home Loan Bank	AAA	Standard & Poor's	$ 26,708
Federal Home Loan Mortgage Corporation	AAA	Standard & Poor's	1,354,619
Federal National Mortgage Corporation	AAA	Standard & Poor's	100,051
Small Business Administration loan	AAA	Standard & Poor's	17,281
Fannie Mae	AAA	Standard & Poor's	550,000

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2008, none of Houston County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County'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:

Issuer	Reported Amount
Federal Home Loan Mortgage Corporation	$ 1,354,619
Fannie Mae	549,002

2. Receivables

Receivables as of December 31, 2008, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Accounts receivable, gross	$ 610,798
Less: allowance for uncollectible	(347,281)
Net Accounts Receivable	$ 263,517

The loans receivable balance of $745,329 includes $735,667, which is not scheduled for collection in the subsequent year.

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 716,825	$ 374,533	$ -	$ 1,091,358
Land - infrastructure right-of-way	1,364,150	26,234	-	1,390,384
Land improvements	251,088	-	-	251,088
Construction in progress - infrastructure	1,461,516	1,688,137	1,140,482	2,009,171
Total capital assets not depreciated	$ 3,793,579	$ 2,088,904	$ 1,140,482	$ 4,742,001
Capital assets depreciated				
Buildings	$ 1,667,667	$ 192,482	$ -	$ 1,860,149
Building improvements	1,026,825	-	-	1,026,825
Other improvements	353,481	-	-	353,481
Machinery, furniture, and equipment	4,714,046	475,634	455,799	4,733,881
Infrastructure	81,007,389	1,140,482	10,819	82,137,052
Total capital assets depreciated	$ 88,769,408	$ 1,808,598	$ 466,618	$ 90,111,388
Less: accumulated depreciation for				
Buildings	$ 707,899	$ 32,053	$ -	$ 739,952
Building improvements	521,313	20,537	-	541,850
Other improvements	49,568	7,070	-	56,638
Machinery, furniture, and equipment	1,902,051	376,123	242,379	2,035,795
Infrastructure	35,452,449	1,384,894	9,794	36,827,549
Total accumulated depreciation	$ 38,633,280	$ 1,820,677	$ 252,173	$ 40,201,784
Total capital assets depreciated, net	$ 50,136,128	$ (12,079)	$ 214,445	$ 49,909,604
Governmental Activities Capital Assets, Net	$ 53,929,707	$ 2,076,825	$ 1,354,927	$ 54,651,605

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General government	$ 71,368
Public safety	71,829
Highways and streets, including depreciation of infrastructure assets	1,658,042
Sanitation	18,347
Culture and recreation	1,091
Total Depreciation Expense - Governmental Activities	$ 1,820,677

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

Interfund Transfers

Interfund transfers for the year ended December 31, 2008, consisted of the following:

Transfer to Road and Bridge Fund from General Fund	$ 74,880	Transfer for road project

C. Liabilities

1. Emergency Certificate of Indebtedness

In 2007, the County entered into an emergency certificate of indebtedness. The emergency certificate of indebtedness is dated December 11, 2007, matures on December 11, 2010, and bears interest at a rate of 4.3 percent per annum, payable at maturity or at any time prior to maturity without any prepayment penalty. The first interest payment of $21,559 was paid on June 17, 2008. On September 15, 2008, an additional $1,000,000 was taken out against the emergency certificate of indebtedness. The County received federal emergency management aid in 2008 and repaid the $2,000,000 principal and accrued interest of $22,148 on October 31, 2008. Although repaid, the Emergency Certificate of Indebtedness is still available to the County until December 11, 2010.

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, 2008, are $46,265. The loan payments will be made in the General Fund.

3. Detailed Notes on All Funds

C. Liabilities

2. Loans Payable (Continued)

Debt service requirements at December 31, 2008, were as follows:

Year Ending December 31	State Loan Principal	State Loan Interest
2009 - 2013	$ 12,300	$ 2,190
2014 - 2016	29,700	2,075
Total	$ 42,000	$ 4,265

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Emergency certificate of indebtedness	$ 1,000,000	$ 1,000,000	$ 2,000,000	$ -	$ -
Loans payable	42,000	-	-	42,000	-
Compensated absences	792,282	37,034	-	829,316	43,142
Net OPEB obligation	-	36,057	-	36,057	-
Long-Term Liabilities	$ 1,834,282	$ 1,073,091	$ 2,000,000	$ 907,373	$ 43,142

4. Employee Retirement Systems and Pension Plans

A. Plan Description

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

4. 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 as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

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 defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

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

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the 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; 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. 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 were required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were required to contribute 8.60 percent of their annual covered salary in 2008. That rate increased to 9.4 percent in 2009. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

	2008	2009
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75
Public Employees Police and Fire Fund	12.90	14.10
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2008	2007	2006
Public Employees Retirement Fund	$ 328,460	$ 308,597	$ 272,291
Public Employees Police and Fire Fund	100,222	79,375	56,669
Public Employees Correctional Fund	43,811	39,595	37,771

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

C. Other Postemployment Benefits

Plan Description

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

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits

Plan Description (Continued)

the County's health benefits program. Retirees are required to pay 100 percent of the total group rate. Since the premium is a blended rate determined on the entire active and retiree population, the retirees, whose costs are statistically higher than the group average, are receiving an implicit rate "subsidy." As of January 1, 2008, there were four retirees receiving health benefits from the County's health plan.

Annual OPEB Cost and Net OPEB Obligation

The County's annual other postemployment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfounded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for 2008, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

ARC	$ 55,139
Interest on net OPEB obligations	-
Adjustment to ARC	-
Annual OPEB cost	$ 55,139
Contribution during the year	(19,082)
Increase in net OPEB obligations	$ 36,057
Net OPEB beginning of year	-
Net OPEB end of year	$ 36,057

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended December 31, 2008, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2008	$55,139	$19,082	34.6%	$36,057

Funding Status

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	$0	$503,862	$503,862	0.0%	$6,203,278	8.1%

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

Actuarial Methods and Assumptions

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

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits

Actuarial Methods and Assumptions (Continued)

In the January 1, 2008, actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions included a 4.5 percent discount rate (net of expenses), including an inflation assumption of 2.5 percent and an annual healthcare cost rate of 9.0 percent initially, reduced incrementally to an ultimate rate of 5.0 percent after eight years. The initial unfunded actuarial liability is being amortized as a level dollar amount over an open 30-year period beginning in 2008.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. 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 $410,000 and $430,000 per claim in 2008 and 2009, 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.

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.

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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 2008.

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.

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 $4,000 from Houston County.

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

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

The Workforce Development provides various job training services to several counties. During the year, Houston County paid $111,566 to the Workforce Development.

The Southeast Minnesota Community Action Council (SEMCAC) provides various social services emergency assistance services to several counties. It also provides housing and redevelopment for Houston County through Bluff Country. During the year, Houston County paid $35,414 to SEMCAC.

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

The Southeastern Minnesota Library provides regional library services to counties and cities in southeastern Minnesota. During the year, Houston County paid $106,401 to the Library.

The Minnesota Counties Computer Cooperative (MCCC) provides computer programming services to several Minnesota counties. During the year, Houston County paid $84,794 to the MCCC.

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.

5. Summary of Significant Contingencies and Other Items

D. Joint Venture

Family Services Collaborative (Continued)

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 2008, 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

General Obligation Capital Notes

On February 24, 2009, Houston County issued $730,000 General Obligation Capital Notes, Series 2009A. This issue will be used to finance equipment replacements.

REQUIRED SUPPLEMENTARY INFORMATION

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

Schedule 1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 4,181,358	$ 4,181,358	$ 4,169,530	$ (11,828)
Licenses and permits	51,395	51,395	50,865	(530)
Intergovernmental	2,364,879	2,364,879	3,899,302	1,534,423
Charges for services	2,040,525	2,040,525	1,960,070	(80,455)
Fines and forfeits	26,000	26,000	29,917	3,917
Gifts and contributions	5,000	5,000	1,902	(3,098)
Investment earnings	129,800	129,800	257,486	127,686
Miscellaneous	338,365	338,365	399,660	61,295
Total Revenues	**$ 9,137,322**	**$ 9,137,322**	**$ 10,768,732**	**$ 1,631,410**
Expenditures				
Current				
General government				
Commissioners	$ 254,944	$ 254,944	$ 267,257	$ (12,313)
Courts	43,600	43,600	74,053	(30,453)
County auditor	224,777	224,777	197,726	27,051
Motor vehicle/licence bureau	90,473	90,473	90,187	286
County treasurer	140,791	140,791	133,476	7,315
County assessor	354,027	354,027	339,201	14,826
Elections	68,286	68,286	71,302	(3,016)
Finance director	-	-	27,132	(27,132)
Data processing	391,314	391,314	363,812	27,502
Personnel	161,841	161,841	160,643	1,198
Attorney	331,751	331,751	312,034	19,717
Law library	33,000	33,000	31,142	1,858
Recorder	209,117	209,117	193,007	16,110
Surveyor	194,069	194,069	192,966	1,103
Planning and zoning	255,380	255,380	196,887	58,493
Buildings and plant	279,242	279,242	538,916	(259,674)
Veterans service officer	110,452	110,452	115,783	(5,331)
Other general government	251,375	251,375	262,165	(10,790)
Total general government	**$ 3,394,439**	**$ 3,394,439**	**$ 3,567,689**	**$ (173,250)**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 1,230,911	$ 1,230,911	$ 1,301,299	$ (70,388)
Boat and water safety	10,150	10,150	13,361	(3,211)
Coroner	45,837	45,837	46,391	(554)
E-911 system	136,809	136,809	134,629	2,180
County jail	935,784	935,784	979,200	(43,416)
Community corrections	260,483	260,483	223,928	36,555
Civil defense	66,449	66,449	703,243	(636,794)
Total public safety	**$ 2,686,423**	**$ 2,686,423**	**$ 3,402,051**	**$ (715,628)**
Transportation				
Highways and streets	$ -	$ -	$ 4,200	$ (4,200)
Airport	148,565	148,565	70,282	78,283
Total transportation	**$ 148,565**	**$ 148,565**	**$ 74,482**	**$ 74,083**
Sanitation				
Solid waste	$ 467,064	$ 467,064	$ 460,272	$ 6,792
Recycling	367,236	367,236	353,458	13,778
Total sanitation	**$ 834,300**	**$ 834,300**	**$ 813,730**	**$ 20,570**
Health				
Nursing services	$ 1,551,530	$ 1,551,530	$ 1,538,115	$ 13,415
Transportation	13,190	13,190	12,194	996
Health center (waivered services)	2,000	2,000	2,000	-
Total health	**$ 1,566,720**	**$ 1,566,720**	**$ 1,552,309**	**$ 14,411**
Culture and recreation				
Historical society	$ 42,200	$ 42,200	$ 42,200	$ -
Parks	38,663	38,663	52,540	(13,877)
County/regional library	106,425	106,425	106,401	24
Other culture and recreation	121,505	121,505	142,100	(20,595)
Total culture and recreation	**$ 308,793**	**$ 308,793**	**$ 343,241**	**$ (34,448)**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Expenditures				
Current (Continued)				
Conservation of natural resources				
County extension	$ 173,015	$ 173,015	$ 178,732	$ (5,717)
Soil and water conservation	160,588	160,588	160,588	-
Agriculture society/county fair	18,000	18,000	18,000	-
Water planning	23,251	23,251	21,251	2,000
Total conservation of natural resources	**$ 374,854**	**$ 374,854**	**$ 378,571**	**$ (3,717)**
Economic development				
Community development	$ 58,262	$ 58,262	$ 603,991	$ (545,729)
Other economic development	7,020	7,020	8,411	(1,391)
Total economic development	**$ 65,282**	**$ 65,282**	**$ 612,402**	**$ (547,120)**
Capital outlay				
Highways and streets	**$ -**	**$ -**	**$ 329,433**	**$ (329,433)**
Total Expenditures	**$ 9,379,376**	**$ 9,379,376**	**$ 11,073,908**	**$ (1,694,532)**
Excess of Revenues Over (Under) Expenditures	**$ (242,054)**	**$ (242,054)**	**$ (305,176)**	**$ (63,122)**
Other Financing Sources (Uses)				
Transfers out	-	-	(74,880)	(74,880)
Change in Fund Balance	**$ (242,054)**	**$ (242,054)**	**$ (380,056)**	**$ (138,002)**
Fund Balance - January 1	**5,270,119**	**5,270,119**	**5,270,119**	**-**
Fund Balance - December 31	**$ 5,028,065**	**$ 5,028,065**	**$ 4,890,063**	**$ (138,002)**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

Schedule 2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,692,865	$ 1,692,865	$ 1,677,417	$ (15,448)
Licenses and permits	1,000	1,000	1,560	560
Intergovernmental	7,776,681	7,776,681	8,238,264	461,583
Charges for services	147,500	147,500	294,043	146,543
Investment earnings	30,500	30,500	101,013	70,513
Miscellaneous	7,000	7,000	8,714	1,714
Total Revenues	**$ 9,655,546**	**$ 9,655,546**	**$ 10,321,011**	**$ 665,465**
Expenditures				
Current				
Transportation				
Administration	$ 231,771	$ 231,771	$ 242,453	$ (10,682)
Maintenance	2,576,121	2,576,121	6,663,891	(4,087,770)
Construction	6,153,777	6,153,777	3,772,183	2,381,594
Equipment maintenance and shop	806,977	806,977	831,254	(24,277)
Total transportation	**$ 9,768,646**	**$ 9,768,646**	**$ 11,509,781**	**$ (1,741,135)**
Debt service				
Principal	-	-	2,000,000	(2,000,000)
Interest	-	-	43,707	(43,707)
Total Expenditures	**$ 9,768,646**	**$ 9,768,646**	**$ 13,553,488**	**$ (3,784,842)**
Excess of Revenues Over (Under) Expenditures	**$ (113,100)**	**$ (113,100)**	**$ (3,232,477)**	**$ (3,119,377)**
Other Financing Sources (Uses)				
Transfers in	$ 15,000	$ 15,000	$ 74,880	$ 59,880
Emergency certificate of indebtedness	-	-	1,000,000	1,000,000
Total Other Financing Sources (Uses)	**$ 15,000**	**$ 15,000**	**$ 1,074,880**	**$ 1,059,880**
Change in Fund Balance	**$ (98,100)**	**$ (98,100)**	**$ (2,157,597)**	**$ (2,059,497)**
Fund Balance - January 1	**1,754,710**	**1,754,710**	**1,754,710**	**-**
Increase (decrease) in reserved for inventories	**-**	**-**	**142,861**	**142,861**
Fund Balance - December 31	**$ 1,656,610**	**$ 1,656,610**	**$ (260,026)**	**$ (1,916,636)**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

Schedule 3

BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 1,121,274	$ 1,121,274	$ 1,103,665	$ (17,609)
Intergovernmental	3,028,844	3,028,844	3,237,651	208,807
Charges for services	7,746	7,746	7,696	(50)
Interest on investments	50,000	50,000	34,469	(15,531)
Total Revenues	**$ 4,207,864**	**$ 4,207,864**	**$ 4,383,481**	**$ 175,617**
Expenditures				
Current				
Human services				
Income maintenance	$ 914,174	$ 914,174	$ 1,031,461	$ (117,287)
Social services	3,358,182	3,358,182	3,431,577	(73,395)
Total Expenditures	**$ 4,272,356**	**$ 4,272,356**	**$ 4,463,038**	**$ (190,682)**
Excess of Revenues Over (Under) Expenditures	**$ (64,492)**	**$ (64,492)**	**$ (79,557)**	**$ (15,065)**
Fund Balance - January 1	**1,445,217**	**1,445,217**	**1,445,217**	**-**
Fund Balance - December 31	**$ 1,380,725**	**$ 1,380,725**	**$ 1,365,660**	**$ (15,065)**

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

HOUSTON COUNTY
WABASHA, MINNESOTA

Schedule 4

SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2008

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	$0	$503,862	$ 503,862	0.0%	$6,203,278	8.1%

See Note 4.C., Other Postemployment Benefits, for more information.

Multi-year trend information is not available at this time, as Governmental Accounting Standards Board Statement 45 was implemented in 2008.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2008

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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 Finance Director 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, 2008, expenditures exceeded appropriations in the General Fund by $1,694,532, in the Road and Bridge Special Revenue Fund by $3,784,842, and in the Social Services Special Revenue Fund by $190,682. These over-expenditures were funded by greater than anticipated revenues and prior year fund equity.

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SUPPLEMENTARY INFORMATION

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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, 2008

	Balance January 1	Additions	Deductions	Balance December 31
CROOKED CREEK WATERSHED				
Assets				
Cash and pooled investments	$ 840	$ 22,536	$ 22,699	$ 677
Liabilities				
Due to other governments	$ 840	$ 22,536	$ 22,699	$ 677
HEALTH				
Assets				
Cash and pooled investments	$ 47,857	$ 122,319	$ 127,506	$ 42,670
Liabilities				
Accounts payable	$ 47,857	$ 122,319	$ 127,506	$ 42,670
REVOLVING				
Assets				
Cash and pooled investments	$ 31,156	$ 3,320,400	$ 3,330,056	$ 21,500
Liabilities				
Due to other governments	$ 31,156	$ 3,320,400	$ 3,330,056	$ 21,500

HOUSTON COUNTY
CALEDONIA, MINNESOTA

Statement 1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Balance January 1	Additions	Deductions	Balance December 31
SOIL AND WATER CONSERVATION				
Assets				
Cash and pooled investments	$ 653,514	$ 1,713,951	$ 1,132,083	$ 1,235,382
Liabilities				
Due to other governments	$ 653,514	$ 1,713,951	$ 1,132,083	$ 1,235,382
SCHOOL DISTRICTS				
Assets				
Cash and pooled investments	$ 224,276	$ 4,931,368	$ 5,003,926	$ 151,718
Liabilities				
Due to other governments	$ 224,276	$ 4,931,368	$ 5,003,926	$ 151,718
FAMILY COLLABORATIVE				
Assets				
Cash and pooled investments	$ 190,700	$ 141,333	$ 163,692	$ 168,341
Liabilities				
Due to other governments	$ 190,700	$ 141,333	$ 163,692	$ 168,341

HOUSTON COUNTY
CALEDONIA, MINNESOTA

Statement 1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	**$ 76,437**	**$ 18,715,625**	**$ 18,683,049**	**$ 109,013**
Liabilities				
Accounts payable	$ 76,437	$ 111,091	$ 78,515	$ 109,013
Due to other funds	-	8,047,719	8,047,719	-
Due to other governments	-	10,667,906	10,667,906	-
Total Liabilities	**$ 76,437**	**$ 18,826,716**	**$ 18,794,140**	**$ 109,013**
TOWNS AND CITIES				
Assets				
Cash and pooled investments	**$ 238,661**	**$ 5,762,482**	**$ 5,867,135**	**$ 134,008**
Liabilities				
Due to other governments	**$ 238,661**	**$ 5,762,482**	**$ 5,867,135**	**$ 134,008**
HISTORICAL BLUFF COUNTRY				
Assets				
Cash and pooled investments	**$ 973**	**$ 16,302**	**$ 17,113**	**$ 162**
Liabilities				
Accounts payable	**$ 973**	**$ 16,302**	**$ 17,113**	**$ 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, 2008

	Balance January 1	Additions	Deductions	Balance December 31
VICTIM SERVICES				
Assets				
Cash and pooled investments	**$ 7,505**	**$ 56,305**	**$ 45,620**	**$ 18,190**
Liabilities				
Due to other governments	**$ 7,505**	**$ 56,305**	**$ 45,620**	**$ 18,190**
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	**$ 1,471,919**	**$ 34,802,621**	**$ 34,392,879**	**$ 1,881,661**
Liabilities				
Accounts payable	$ 125,267	$ 249,712	$ 223,134	$ 151,845
Due to other funds	-	8,047,719	8,047,719	-
Due to other governments	1,346,652	26,616,281	26,233,117	1,729,816
Total Liabilities	**$ 1,471,919**	**$ 34,913,712**	**$ 34,503,970**	**$ 1,881,661**

OTHER SCHEDULES

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

Schedule 5

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Shared Revenue		
State		
Highway users tax	$	3,687,817
PERA rate reimbursement		23,670
Disparity reduction aid		112,423
Police aid		79,375
County program aid		882,601
Market value credit		895,494
Tax credit disaster		22,050
Enhanced 911		79,753
Total Shared Revenue	**$**	**5,783,183**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**481,740**
Payments		
Local		
Local contributions	$	13,506
Payments in lieu of taxes		297,999
Total Payments	**$**	**311,505**
Grants		
State		
Minnesota Department of		
Public Safety	$	1,094,314
Health		154,916
Employment and Economic Development		705,530
Natural Resources		299,068
Human Services		1,345,080
Veterans Affairs		30,000
Corrections		71,438
Transportation		860,547
Water and Soil Resources Board		111,681
Pollution Control Agency		27,500
Peace Officer Standards and Training Board		4,806
Total State	**$**	**4,704,880**

HOUSTON COUNTY
CALEDONIA, MINNESOTA

Schedule 5
(Continued)

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Grants (Continued)		
Federal		
Department of		
Agriculture	$	133,793
Justice		1,000
Transportation		1,129,132
Health and Human Services		1,212,602
Homeland Security		1,617,231
Environmental Protection Agency		151
Total Federal	**$**	**4,093,909**
Total State and Federal Grants	**$**	**8,798,789**
Total Intergovernmental Revenue	**$**	**15,375,217**

HOUSTON COUNTY
CALEDONIA, MINNESOTA

Schedule 6

TAX CAPACITY, TAX RATES, LEVIES, AND PERCENTAGE OF COLLECTIONS
FOR CALENDAR YEARS 2006 THROUGH 2008

	Tax Year 2006		Tax Year 2007		Tax Year 2008	
	Net Tax Capacity	Tax Capacity Rate Percent (%)	Net Tax Capacity	Tax Capacity Rate Percent (%)	Net Tax Capacity	Tax Capacity Rate Percent (%)
Tax Capacity						
Real property	$ 13,531,276		$ 14,751,185		$ 15,408,025	
Personal property	279,763		379,938		375,537	
Tax increment financing	(152,630)		(142,222)		(131,891)	
Net Tax Capacity	**$ 13,658,409**		**$ 14,988,901**		**$ 15,651,671**	
Tax Levied for County						
County Revenue	$ 4,386,195	32.600	$ 4,710,972	31.892	$ 5,477,439	35.530
Road and Bridge	1,466,186	10.735	1,927,191	12.857	1,881,466	12.031
Human Services	1,065,119	7.798	1,266,962	8.453	1,050,288	6.716
Bond - Fund 10 (Hwy. Project)	-	-	-	-	255,483	1.632
Bond - Fund 11 (Equipment)	-	-	-	-	279,660	1.787
Net Tax Levy	**$ 6,917,500**	**51.133**	**$ 7,905,125**	**53.202**	**$ 8,944,336**	**57.696**

	Tax Capacity	Market Value	Tax Capacity	Market Value	Tax Capacity	Market Value
Taxable Valuations						
Light and Power Tax						
Transmission lines	$ 6,098	$ 304,900	$ 5,642	$ 282,100	$ 5,530	$ 276,500
Distribution lines	376	18,800	348	17,400	342	17,100
Total Taxable Valuations - Light and Power	**$ 6,474**	**$ 323,700**	**$ 5,990**	**$ 299,500**	**$ 5,872**	**$ 293,600**
Light and Power Tax Levy						
Transmission lines	$ 6,804	$ 558	$ 6,356	$ 554	$ 6,538	$ 588
Distribution lines	420	34	392	34	404	36
Total Light and Power Tax Levy	**$ 7,224**	**$ 592**	**$ 6,748**	**$ 588**	**$ 6,942**	**$ 624**

	Tax Year 2006	Tax Year 2007	Tax Year 2008
Percentage of tax collections for all purposes	**98.93%**	**98.53%**	

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Management and Compliance Section

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

Schedule 7

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

I. SUMMARY OF AUDITOR'S RESULTS

A. Our report expresses unqualified opinions on the basic financial statements of Houston County.

B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Houston County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." We consider one of the deficiencies to be 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 not a material weakness.

E. The Auditor's Report on Compliance for the major federal award programs for Houston County expresses an unqualified opinion.

F. 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 Cluster	
Child Care Development Block Grant	CFDA #93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	CFDA #93.596
Medical Assistance	CFDA #93.778
Public Assistance (Presidentially Declared Disasters)	CFDA #97.036

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

I. Houston County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-1 Audit Adjustments and Financial Statement Monitoring

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.

Audit adjustments were made to the General Fund for the following:

- increase in payables of $54,222;
- reduction in a receivable of $329,433 and increase in accounts payable of $4,200 to merge a department into the General Fund;
- reduction in receivables of $92,034 to record allowance for uncollectible accounts for health receivables;
- increase receivables for unrecorded items by $174,992;
- increase investments for market value increases of $6,456; and
- increase deferred revenues by $130,356.

Audit adjustments were made to the Road and Bridge Special Revenue Fund for the following:

- increase liabilities by $3,666,251 for advance from other governments;
- reduction of both receivable and deferred revenue of $20,441;
- increase investments by $8,547 for market value increases; and
- increase liabilities by $414,985 for advance of disaster funds.

Audit adjustments were made to the Social Services Special Revenue Fund for the following:

- increase in deferred revenue by $85,230 for revenues not available for the current year;
- increase payables by $89,285 for targeted case management contingency reserve funds due to the state;
- reduce salaries payable by $7,056;
- increase receivables by $81,545 for unrecorded receivables;
- decrease receivables by $52,827 and increase receivables by $9,268, and $33,944 for errors in recording receivables; and
- increase investments by $2,998 for market value increases.

Audit adjustments were made to the government-wide conversion trial balance for the following:

- decrease in capital assets of $3,639,429 for accumulated depreciation;
- increase in capital assets of $1,925 for capital asset additions omitted; and
- decrease in compensated absences payable of $3,210.

Reclassification entries were also made within:

- General Fund assets for $1,126,709, liabilities for $1,540,204, fund balance for $165,263, revenues for $656,275, and expenditures for $339,831;
- Road and Bridge Special Revenue Fund revenues for $879,650, expenditures for $37,137, and fund balance for $1,416,905; and
- Social Services Special Revenue Fund liabilities for $591, fund balance for $113,060, revenues for $744,284, and expenditures for $571,780.

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 and financial statements accurately reflect the County's financial position.

<u>Client's Response</u>:

The County will work on creating processes and procedures for verification of the trial balances.

06-2 Segregation of Duties and Investment Oversight

The County Treasurer purchases all investments for the County. Investments are not reviewed or approved by a second party. In the County Treasurer's Office, one employee has the ability to collect receipts, records monies to the general ledger, prepare bank deposits, and take deposits to the bank.

We recommend investments be approved or reviewed by a second party independent of the County Treasurer. The investments should be reviewed for both legality and appropriateness. We also recommend that the duties in the County Treasurer's Office be segregated between employees in the Treasurer's Office.

Client's Response:

The County has implemented an investment oversight committee to review all investments on a monthly basis.

07-1 Segregation of Duties Relating to Payroll

Review of the Paymate payroll system revealed that any individual authorized to use the Paymate system can access all aspects of the system. This includes adding new employees, entering payroll information, changing employee information, changing hourly wage, and withholdings. Although monitoring procedures were established for any changes to employee information, there are no monitoring procedures in place for entering bi-weekly time sheet data.

We recommend the County include entering bi-weekly time sheet data in the monitoring procedures for payroll.

Client's Response:

Human Resource Director and County Auditor will verify changes, additions, and deletions each pay period. Information System Manager will review bi-weekly time sheet data. Finance Director will review time sheet data for Human Resource Technician and Information System Manager.

07-2 Disbursement Internal Controls

While reviewing County disbursements, we noted the following exceptions:

- Four claims in the General Fund did not have supporting documentation.

- Two claims for the General Fund and three claims for the Social Services Special Revenue Fund did not have department head approval.

We recommend proper signatures be present on the voucher or invoice prior to payment and that supporting documentation is included with the voucher prior to payment.

Client's Response:

The County will only make disbursements for claims that have proper documentation and appropriate authorization.

07-3 Disbursements Segregation of Duties and New Vendors

New vendors can be added by the same employee who records the disbursements and prints the checks. That employee has the ability to add fictitious vendors and pay a fictitious vendor. New vendors added to the vendor masterfile are not monitored or reviewed by an employee independent of the disbursement process for validity of the vendor.

We recommend the County implement proper segregation of duties to prevent and detect errors in the disbursement process or implement other compensating controls.

Client's Response:

The County Auditor will now review, on a quarterly basis, all new vendors added into the system. The County Auditor will certify that all new vendors are legitimate vendors of the County.

07-4 Annual Inventory of Capital Assets

Good internal control over capital assets should include procedures to verify the existence and accuracy of the capital assets. The County did not perform an annual inventory of capital assets to provide that verification. Capital assets are not tagged with an asset number, thus making them difficult to keep track of.

We recommend the County perform an annual inventory of capital assets. We also recommend the County track capital assets included in inventory using asset tags.

Client's Response:

The County will implement an annual inventory of capital assets by each department and require each department head to certify that they inventoried the capital assets within their department.

07-5 Investment Policy

The County has not updated its investment policy to address the risks identified in Governmental Accounting Standards Board Statement 40. It is important for the County to establish the level of risk it will assume in the investment policy so the County can establish the risk levels it desires.

We recommend the County update its investment policy to address the risks identified in GASB Statement 40.

Client's Response:

For fiscal year 2009, the County has implemented an investment policy that meets all requirements of GASB Statement 40 and also establishes an oversight committee to oversee investments.

ITEMS ARISING THIS YEAR

08-1 IFS System Access

We noted that the Information System Manager has the ability to inquire, add, change, or delete any maintenance area of the general ledger as well as change various general ledger reports. The System Manager also has access to maintenance with vendor files including changing ACH bank information along with all 1099 access.

We recommend the County review access of the Information System Manager to various options of the general ledger system and consider limiting access to those options needed to carry out the responsibilities assigned in the job description.

<u>Client's Response</u>:

The County will review Information System Manager's position and adjust system access according to the requirements of that position.

08-2 <u>Departmental Internal Accounting Controls</u>

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

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

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

<u>Client's Response</u>:

The County will continue to evaluate its processes and procedures to ensure segregation of duties as much as possible with the staffing that is available.

08-3 <u>Disbursement Procedures</u>

Written internal control procedures for general disbursements did not disclose how the following processes are handled: monitoring or reviewing of information included in the general ledger system by someone other than those that input the information, how the information is approved by those in charge of governance, and how voided warrants are handled. We also noted that the written disbursement procedures for the Social Services Special Revenue Fund SSIS and CSIS systems are the same. These systems have different controls and processes and, therefore, should be addressed separately.

We recommend written disbursement processes include all procedures, including review and monitoring procedures performed. The procedures should be properly updated to reflect current procedures being performed.

<u>Client's Response</u>:

The County will work on developing and documenting processes and procedures for oversight of disbursements.

<u>PREVIOUSLY REPORTED ITEM RESOLVED</u>

Financial Statement Preparation (06-3)

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.

Resolution

The County is preparing financial statements and notes.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

A. <u>COMPLIANCE</u>

<u>PREVIOUSLY REPORTED ITEM RESOLVED</u>

Failure to Perform Case Redetermination - Child Care Development Block Grant (CFDA #93.575) (05-2)

In our testing of child care compliance, we noted noncompliance in age verification, incorrect copayment amounts, and untimely redeterminations.

Resolution

We noted no compliance issues with age verification or untimely redeterminations upon testing of the child care program for the current year. Copayment testing disclosed immaterial noncompliance.

B. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-8 Child Care Program (CFDA #93.575/93.596) Internal Control Over Vendor Claims

While testing internal accounting controls over the child care program, we noted vendor claims had not been signed by the appropriate parties. Vendor claims are to be signed by the provider and participant and approved by the financial workers of the County. We tested 40 vendor claims, and 4 of the claims were missing one of the appropriate party signatures.

We recommend that the Social Services Department obtain proper signatures of all parties prior to making payment of child care claims.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Linda Bahr, Houston County Collection and Accounting Supervisor

Corrective Action Planned:

Houston County Human Services Department will require that signature blocks are signed by either a client and/or a legal representative. This will be verified by the applicable Human Services staff member and must be reviewed and approved by their departmental Director or Supervisor before a disbursement can be made.

Anticipated Completion Date:

September 17, 2009

PREVIOUSLY REPORTED ITEM RESOLVED

Airport Improvement Program (CFDA #20.106) Equipment and Real Property Management (07-7)

The County did not have policies and procedures in place for the disposition of property acquired with federal grant awards.

Resolution

The County now has policies and procedures to monitor property acquired with federal grant awards.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

08-4 Delegation to Pay Claims

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

We recommend the County adopt a resolution delegating its authority to pay certain claims in accordance with Minnesota Statutes.

Client's Response:

The County has delegated this authority to the County Auditor and County Finance Director. Both must approve the claim in addition to normal departmental approval before payment is made.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

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.

From the review of the AS/400 system value settings, we have noticed weaknesses in a few system value settings. The County states that a terminal left alone does not turn off after a period of time, which should be set to 30 minutes for QINACTITV. We also noted the system value for allowing restore of security sensitive objects is set to all. Although there are no known viruses for AS/400s, if a virus was ever loaded, it would need to be able to bypass the checking of this system. Therefore, the setting should be *None for QALWOBJRST. We also note the security level for QAUTOCFG and QAUTORMT are both set at 1. This setting allows new terminals, other devices, and remote controllers to be automatically configured on the system as soon as they are detected. We recommend that both of these be set to 0=disabled. System Administrators can change this setting when configuring a new device, but then change it back to 0 after the configuration is completed.

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 position on the recommended security levels and any other procedures it has in place to provide the needed security.

Client's Response:

Houston County is in the process of developing a disaster recovery plan.

PREVIOUSLY REPORTED ITEM RESOLVED

Credit Card Policy (07-6)

The County Board had authorized several credit cards within the County, but had not adopted a formal credit card policy for the use of the cards.

Resolution

The County has adopted a policy.

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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, 2008, and have issued our report thereon dated September 24, 2009. 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, 06-2, 07-1 through 07-5, and 08-1 through 08-3 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, except as described in the Schedule of Findings and Questioned Costs as item 08-4.

Also included in the Schedule of Findings and Questioned Costs is a management practices comment. We believe the recommendation and information to be of benefit to Houston County, and they are reported for that purpose.

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

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

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 24, 2009

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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, 2008. 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.

In our opinion, 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, 2008.

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 certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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 07-8 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 Houston County's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs 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, 2008, and have issued our report thereon dated September 24, 2009. Our audit was performed for the purpose of forming opinions on the County's 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 corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plan and, accordingly, we express no opinion on it.

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

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 24, 2009

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

Schedule 8

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number		Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	$	57,907
Passed Through Minnesota Department of Human Services			
State Administrative Matching Grants for Food Stamp Program	10.561		75,886
Total U.S. Department of Agriculture		**$**	**133,793**
U.S. Department of Justice			
Passed Through Minnesota Department of Public Safety			
Enforcing Underage Drinking Laws Program	16.727	**$**	**1,000**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Airport Improvement Program	20.106	$	4,385
Highway Planning and Construction	20.205		533,360
Passed Through Minnesota Department of Public Safety			
State and Community Highway Safety	20.600		6,747
Total U.S. Department of Transportation		**$**	**544,492**
U.S. Environmental Protection Agency			
Passed Through Minnesota Department of Health			
State Indoor Radon Grant	66.032	**$**	**151**
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Health			
Centers for Disease Control and Prevention	93.283	$	31,596
Temporary Assistance for Needy Families (TANF)	93.558		21,557
Maternal and Child Health Services Block Grant	93.994		25,325

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

HOUSTON COUNTY
CALEDONIA, MINNESOTA

Schedule 8
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	13,997
Temporary Assistance for Needy Families (TANF)	93.558	120,431
Child Support Enforcement	93.563	230,080
Refugee and Entrant Assistance - State-Administered Program	93.566	196
Child Care Development Cluster		
Child Care Development Block Grants	93.575	112,123
Child Care Mandatory and Matching Funds	93.596	16,794
Foster Care Title IV-E	93.658	169,499
Social Services Block Grant Title XX	93.667	111,565
Chafee Foster Care Independence Program	93.674	6,353
Children's Health Insurance Program	93.767	178
Medical Assistance Program	93.778	321,417
Community Health Block Grant	93.958	11,882
Total U.S. Department of Health and Human Services		**$ 1,192,993**
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	$ 5,000
Passed Through Minnesota Department of Public Safety		
Public Assistance Grant	97.036	2,326,006
Hazard Mitigation Grant	97.039	66,856
Emergency Management Performance Grant	97.042	15,118
Total U.S. Department of Homeland Security		**$ 2,412,980**
Total Federal Awards		**$ 4,285,409**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

HOUSTON COUNTY
CALEDONIA, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

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	$ 4,093,909
Highway Planning and Construction grant deferred in 2007 and recognized in 2008	(817,837)
Temporary Assistance for Needy Families grant deferred in 2007 and recognized in 2008	(20,623)
Promoting Safe and Stable Families grant deferred in 2007 and recognized in 2008	(187)
Foster Care Title IV-E grant deferred in 2007 and recognized in 2008	(2,390)
Public Assistance grant deferred in 2007 and recognized in 2008	(593,893)
Highway Planning and Construction grant received more than 60 days after year-end	233,197
Medical Assistance grant received more than 60 days after year-end	3,591
Public Assistance grant received more than 60 days after year-end	1,389,642
Expenditures per Schedule of Expenditures of Federal Awards	$ 4,285,409

4. Pass-Through Grant Numbers

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

5. Sub-grants

During 2008, the County did not pass any federal money to subrecipients.