

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

HOUSTON COUNTY
CALEDONIA, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

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

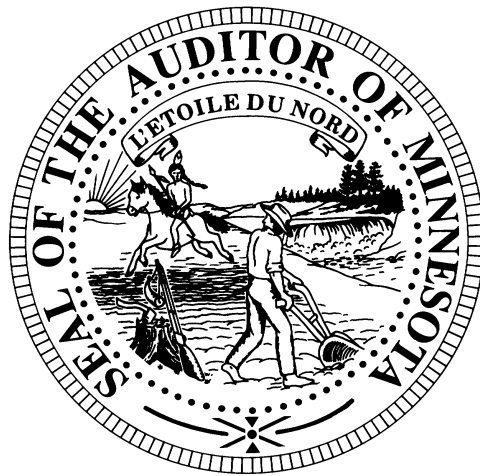
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

Year Ended December 31, 2004



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

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2004

			<u>Term Expires</u>
Elected			
Commissioners			
Chair	Larry Graf	District 1	January 2005
Board Member	Kevin Kelleher	District 2	January 2007
Board Member	Ann Thompson*	District 3	January 2005
Board Member	David Corcoran	District 4	January 2007
Vice Chair	Nels Gulbranson	District 5	January 2005
Attorney	Richard Jackson		January 2007
Auditor	A. Peter Johnson		January 2007
County Recorder	Beverly Bauer		January 2007
County Sheriff	Michael C. Lee		January 2007
District Judge	James Fabian		January 2007
Treasurer	Audrey M. Petersen		January 2007
Appointed			
Assessor	Thomas Dybing		December 2004
County Engineer	Allen Henke		May 2007
Coroner	Regional Medical Center		Indefinite
Social Services Director	Beth Wilms		Indefinite
Public Health Nurse	Linda Grupa		Indefinite
Veteran Services Officer	Robert Gross		October 2007

* Chair 2005

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PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Houston County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Houston County, Minnesota, as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Houston County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Crooked Creek Watershed District, the discretely presented component unit. Those financial statements were audited by other auditors, and our opinion, insofar as it relates to the amounts included for the Crooked Creed Watershed District, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Crooked Creek Watershed District were not audited in accordance with *Government Auditing Standards*. 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 and the report of other auditors provide a reasonable basis for our opinions.

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

As discussed in Note 1.A. to the financial statements, Houston County now includes a discretely presented component unit, the Crooked Creek Watershed District.

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

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Houston County's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Houston County. 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 August 18, 2005, 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 18, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2004
(Unaudited)

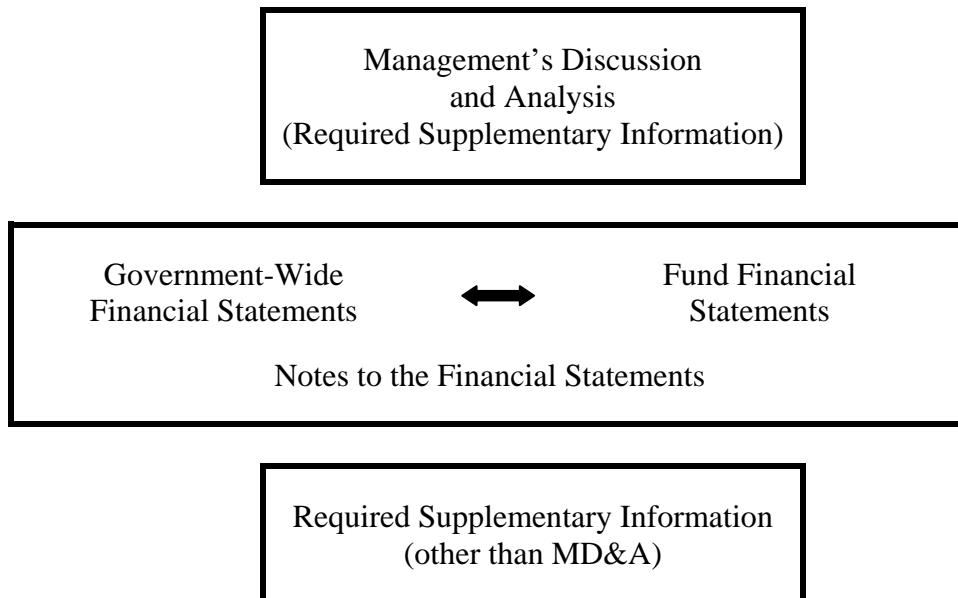
The Houston County's discussion and analysis provides an overview of the County's financial activities for the fiscal year ended December 31, 2004. Since this information is designed to focus on current year activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$61,587,880, of which \$50,161,502 is invested in capital assets and \$2,629,795 is restricted to specific purposes.
- Houston County's net assets increased by \$1,093,728 for the year ended December 31, 2004.
- The net cost of governmental activities for the current fiscal year was \$5,844,490. The net cost was funded by general revenues, including taxes and grants.
- Governmental funds' fund balances increased by \$1,127,940. Most of the increase was due to decreased spending in the Road and Bridge Department.
- During the year, Houston County issued and repaid \$175,000 of short-term general obligation capital equipment notes under the provisions of Minn. Stat. § 371.01.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



There are two government-wide financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start on page 14. 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 Net Assets 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, highways and streets, sanitation, human services, culture and recreation, conservation of natural resources, and economic development.

The government-wide statements include not only Houston County itself (the primary government) but also a legally separate watershed district (the Crooked Creek Watershed District) for which Houston County is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. The Houston County Economic Development Authority, although also legally separate, functions for all practical purposes as a department of Houston County and, therefore, has been included as an integral part of the primary government.

Fund Financial Statements

Our analysis of the County's major funds begins on page 14. The fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's governmental funds use the following accounting method.

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

Reporting the County's Fiduciary Responsibilities

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

THE COUNTY AS A WHOLE

The County's net assets increased from \$60,619,019 (restated) to \$61,705,584.

TABLE 1
Net Assets
(in Millions)

	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 12.7	\$ 12.4
Capital assets	<u>50.2</u>	<u>49.5</u>
Total Assets	<u>\$ 62.9</u>	<u>\$ 61.9</u>
Long-term debt outstanding	\$ 0.7	\$ 0.7
Other liabilities	<u>0.6</u>	<u>0.6</u>
Total Liabilities	<u>\$ 1.3</u>	<u>\$ 1.3</u>
Net Assets		
Invested in capital assets	\$ 50.2	\$ 49.5
Restricted	2.6	3.1
Unrestricted	<u>8.8</u>	<u>8.0</u>
Total Net Assets	<u>\$ 61.6</u>	<u>\$ 60.6</u>

Net assets of the County's governmental activities increased by 1.8 percent (\$60,494,152 compared to \$61,587,880).

TABLE 2
Changes in Net Assets
(in Millions)

	<u>2004</u>	<u>2003</u>
Revenues		
Program revenues		
Fees, fines, charges, and other	\$ 2.1	\$ 2.4
Operating grants and contributions	7.1	4.8
Capital grants and contributions	0.5	1.9
General revenues		
Property taxes	4.5	4.4
Other taxes	0.2	0.2
Grants and contributions	1.8	2.0
Other general revenues	<u>0.4</u>	<u>0.2</u>
Total Revenues	<u>\$ 16.6</u>	<u>\$ 15.9</u>

	<u>2004</u>	<u>2003</u>
Program expenses		
General government	\$ 2.6	\$ 2.7
Public safety	2.1	1.9
Transportation	5.0	4.2
Human services	3.4	3.4
Health	1.2	1.2
Sanitation	0.7	0.7
Culture and recreation	0.2	0.2
Conservation of natural resources	0.3	0.3
Economic development	-	0.1
	<u>\$ 15.5</u>	<u>\$ 14.7</u>
Total Program Expenses		
	<u>\$ 15.5</u>	<u>\$ 14.7</u>
Increase (Decrease) in Net Assets	<u>\$ 1.1</u>	<u>\$ 1.2</u>

Governmental Activities

The cost of all governmental activities this year was \$15,544,573. However, as shown in the Statement of Activities, the amount that the taxpayers ultimately financed for these activities through County property taxes was only \$4,565,597, because some of the cost was paid by those who directly benefited from the programs (\$2,112,863) or by other governments and organizations that subsidized certain programs with grants and contributions (\$7,587,220). The County paid for the remaining “public benefit” portion of governmental activities with \$5,844,490 in general revenues, primarily property taxes and other revenues, such as interest and general entitlements.

Table 3 presents the cost of each of the County’s four largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden that was placed on the County’s taxpayers by each of these functions.

TABLE 3
Governmental Activities
(in Millions)

	<u>Total Cost of Services 2004</u>	<u>Total Cost of Services 2003</u>	<u>Net Cost of Services 2004</u>	<u>Net Cost of Services 2003</u>
Transportation	\$ 5.0	\$ 4.2	\$ 0.4	\$ 0.6
Human services	3.4	3.4	1.1	1.0
General government	2.6	2.7	2.1	1.8
Public safety	2.1	2.0	1.7	1.7

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

At December 31, 2004, Houston County's governmental funds reported combined ending fund balances of \$10,632,541, an increase of \$1,127,940 in comparison with 2003. Approximately, one-half of this amount (\$4,817,859) constitutes unreserved, undesignated fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed.

The General Fund is the chief operating fund of Houston County. At December 31, 2004, unreserved, undesignated fund balance was \$2,915,620, while total fund balance was \$5,734,073. 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 41 percent of total General Fund expenditures, while total fund balance represents 80 percent of the same amount.

The Road and Bridge Fund's fund balance increased by \$788,985, for an ending balance of \$2,850,325, of which \$612,961 is unreserved, undesignated. The increase is due to decreased spending in the Road and Bridge Fund. The Social Services Fund increased by \$185,651 to \$2,048,143, of which \$1,289,278, or 63 percent, is undesignated.

General Fund Budgetary Highlights

Houston County did not revise its General Fund budget during 2004. For the year ended December 31, 2004, expenditures exceeded appropriations by \$135,470, with the largest overages in the public safety function.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the County had \$50,161,502 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 \$682,010, or 1.4 percent, over last year.

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

	2004	2003
Land	\$ 1.8	\$ 1.8
Construction in progress	1.3	0.2
Buildings and improvements	1.5	1.6
Machinery, vehicles, furniture, and equipment	2.2	2.3
Infrastructure	43.4	43.6
Totals	\$ 50.2	\$ 49.5

This year’s major addition was due to a \$1,126,896 increase in road construction in progress projects.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

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

- The State of Minnesota has projected a significant budget deficit, and it is anticipated that there will be significant reductions in state aids to local governments.
- County General Fund expenditures for 2005 are budgeted to decrease 3.0 percent from 2004 due to reductions in grant funded programs available.
- Property tax levies have increased 6.5 percent for 2005.

CONTACTING HOUSTON COUNTY’S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT 1

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

	Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 7,311,116	\$ 12,867
Petty cash and change funds	19,035	-
Investments	2,548,569	169,387
Taxes receivable		
Prior - net	90,870	273
Accounts receivable - net	179,471	-
Accrued interest receivable	59,470	864
Loans receivable	117,704	-
Due from other governments	2,072,658	-
Prepaid items	2,563	-
Inventories	385,466	-
Capital assets		
Nondepreciable	3,101,763	-
Depreciable - net of accumulated depreciation	47,059,739	-
	\$ 62,948,424	\$ 183,391
<u>Liabilities</u>		
Accounts payable	\$ 265,626	-
Salaries payable	96,677	-
Contracts payable	115,732	-
Due to other governments	50,957	-
Unearned revenue	117,704	-
Customer deposits	2,161	-
Long-term liabilities		
Due within one year	34,516	-
Due in more than one year	677,171	-
	\$ 1,360,544	\$ -
<u>Net Assets</u>		
Invested in capital assets	\$ 50,161,502	\$ -
Restricted for		
Highways and streets	2,394,084	-
General government	55,407	-
Public safety	127,281	-
Economic development	53,023	-
Unrestricted	8,796,583	183,391
	\$ 61,587,880	\$ 183,391

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

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

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 2,638,622	\$ 472,656
Public safety	2,058,888	83,821
Transportation	4,964,939	191,667
Sanitation	715,319	461,578
Human services	3,458,434	13,791
Health	1,180,941	852,840
Culture and recreation	212,181	18,308
Conservation of natural resources	272,827	1,315
Economic development	32,783	16,887
Interest	9,639	-
	\$ 15,544,573	\$ 2,112,863
Total governmental activities		
	\$ 15,544,573	\$ 2,112,863
Component unit		
Crooked Creek Watershed District	\$ 5,289	-
	\$ 5,289	\$ -

General Revenues

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

Total general revenues

Change in net assets

Net Assets - Beginning, restated (Note 1.E.)

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenues and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Discretely Presented Component Unit Crooked Creek Watershed District
\$ 73,479	\$ -	\$ (2,092,487)	
239,805	-	(1,735,262)	
3,936,116	474,128	(363,028)	
-	-	(253,741)	
2,308,413	-	(1,136,230)	
284,006	-	(44,095)	
-	-	(193,873)	
271,273	-	(239)	
-	-	(15,896)	
-	-	(9,639)	
\$ 7,113,092	\$ 474,128	\$ (5,844,490)	
\$ -	\$ -		\$ (5,289)
		\$ 4,565,597	\$ 13,651
		17,716	-
		139,522	-
		1,802,666	3,595
		245,817	3,693
		154,453	-
		12,447	-
		\$ 6,938,218	\$ 20,939
		\$ 1,093,728	\$ 15,650
		60,494,152	167,741
		\$ 61,587,880	\$ 183,391

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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, 2004**

	General	Road and Bridge	Social Services	Total Governmental Funds
<u>Assets</u>				
Cash and pooled investments	\$ 5,414,356	\$ 898,572	\$ 998,188	\$ 7,311,116
Petty cash and change funds	18,935	100	-	19,035
Investments	186,513	1,472,056	890,000	2,548,569
Taxes receivable				
Prior	56,324	16,330	18,216	90,870
Accounts receivable	136,145	226	43,100	179,471
Accrued interest receivable	31,742	12,793	14,935	59,470
Loans receivable	117,704	-	-	117,704
Due from other funds	1,243	-	-	1,243
Due from other governments	93,388	1,627,759	351,511	2,072,658
Inventories	-	385,466	-	385,466
Prepaid items	2,563	-	-	2,563
Total Assets	\$ 6,058,913	\$ 4,413,302	\$ 2,315,950	\$ 12,788,165
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 90,973	\$ 19,679	\$ 154,974	\$ 265,626
Salaries payable	61,531	16,261	18,885	96,677
Contracts payable	-	115,732	-	115,732
Due to other funds	-	-	1,243	1,243
Due to other governments	4,870	2,840	43,247	50,957
Deferred revenue - unavailable	47,601	1,408,465	49,458	1,505,524
Deferred revenue - unearned	117,704	-	-	117,704
Customer deposits	2,161	-	-	2,161
Total Liabilities	\$ 324,840	\$ 1,562,977	\$ 267,807	\$ 2,155,624
Fund Balances				
Reserved for				
Prepaid items	\$ 2,564	\$ -	\$ -	\$ 2,564
Inventories	-	385,466	-	385,466
Law library	12,234	-	-	12,234
Recorders equipment purchases	43,173	-	-	43,173
E-911	127,281	-	-	127,281
Future projects	53,023	-	-	53,023
Road projects	-	433,330	-	433,330
Unreserved				
Designated for future expenditures	69,106	600,000	-	669,106
Designated for investments' unrealized gains	14,047	-	-	14,047
Designated for cash flows	2,088,000	655,000	661,771	3,404,771
Designated for compensated absences	409,025	163,568	97,094	669,687
Undesignated	2,915,620	612,961	1,289,278	4,817,859
Total Fund Balances	\$ 5,734,073	\$ 2,850,325	\$ 2,048,143	\$ 10,632,541
Total Liabilities and Fund Balances	\$ 6,058,913	\$ 4,413,302	\$ 2,315,950	\$ 12,788,165

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)	\$ 10,632,541
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.	50,161,502
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	1,505,524
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Loans payable	\$ (42,000)
Compensated absences	(669,687)
	<u>(711,687)</u>
Net assets of governmental activities (Exhibit 1)	<u>\$ 61,587,880</u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT 5

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 2,812,023	\$ 819,186	\$ 940,482	\$ 4,571,691
Licenses and permits	72,764	1,990	-	74,754
Intergovernmental	2,172,560	5,439,494	2,642,290	10,254,344
Charges for services	1,600,543	176,583	13,791	1,790,917
Fines and forfeits	51,521	-	-	51,521
Gifts and contributions	2,203	-	-	2,203
Interest on investments	158,789	50,499	36,529	245,817
Miscellaneous	338,902	11,222	-	350,124
Total Revenues	\$ 7,209,305	\$ 6,498,974	\$ 3,633,092	\$ 17,341,371
Expenditures				
Current				
General government	\$ 2,595,910	\$ -	\$ -	\$ 2,595,910
Public safety	2,046,160	-	-	2,046,160
Transportation	53,860	5,682,037	-	5,735,897
Sanitation	706,916	-	-	706,916
Human services	-	-	3,447,441	3,447,441
Health	1,171,506	-	-	1,171,506
Culture and recreation	211,090	-	-	211,090
Conservation of natural resources	273,312	-	-	273,312
Economic development	32,783	-	-	32,783
Debt service				
Interest	1,764	1,158	-	2,922
Bond issuance costs	618	6,099	-	6,717
Total Expenditures	\$ 7,093,919	\$ 5,689,294	\$ 3,447,441	\$ 16,230,654
Excess of Revenues Over (Under) Expenditures	\$ 115,386	\$ 809,680	\$ 185,651	\$ 1,110,717
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	37,918	-	-	37,918
Net Change in Fund Balance	\$ 153,304	\$ 809,680	\$ 185,651	\$ 1,148,635
Fund Balance - January 1 (Note 1.E.)	5,580,769	2,061,340	1,862,492	9,504,601
Increase (decrease) in reserved for inventories	-	(20,695)	-	(20,695)
Fund Balance - December 31	\$ 5,734,073	\$ 2,850,325	\$ 2,048,143	\$ 10,632,541

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) \$ 1,148,635

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

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

Deferred revenues - December 31	\$ 1,505,524	
Deferred revenues - January 1	<u>(2,221,041)</u>	(715,517)

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

Expenditures for general capital assets	\$ 2,368,448	
Net book value of disposed assets	(25,471)	
Current year depreciation	<u>(1,660,967)</u>	682,010

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in inventories	\$ (20,695)	
Change in compensated absences	<u>(705)</u>	<u>(21,400)</u>

Change in net assets of governmental activities (Exhibit 2) \$ 1,093,728

FIDUCIARY FUNDS

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2004

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 1,189,118</u>
<u>Liabilities</u>	
Accounts payable	\$ 107,078
Due to other governments	<u>1,082,040</u>
Total Liabilities	<u>\$ 1,189,118</u>

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board 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 units 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.

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Unit

While part of the reporting entity, discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. The following component unit of Houston County is discretely presented:

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Crooked Creek Watershed District	County appoints Board members, and the District is a financial burden.	Crooked Creek Watershed 603 North Sprague Street Caledonia, Minnesota 55921

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those 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.

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.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Houston County considers all revenues to be available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on 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, then unrestricted resources as they are 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, 2004, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2004 were \$158,789.

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries rated in the highest quality category by two nationally recognized rating agencies and maturing in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

2. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account to indicate they are not available for appropriation and are not expendable available financial resources.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

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

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

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 is depreciated using the straight-line method over the following estimated useful lives:

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

5. Compensated Absences

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

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Long-Term Obligations (Continued)

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.

E. Prior Period Adjustment

The following table summarizes these changes in fund balances and net assets at January 1, 2004.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Prior Period Adjustment (Continued)

	Fund Balance			Governmental Activities Net Assets
	General	Road and Bridge	Social Services	
January 1, as previously reported	\$ 5,589,746	\$ 2,061,340	\$ 1,804,227	\$ 60,569,731
Reclassification of missing heirs as payables	(8,977)	-	-	(8,977)
Unearned revenue reported as earned in 2003	-	-	-	(124,867)
Omitted social services receivables	-	-	233,061	233,061
Omitted allowance for uncollectible	-	-	(174,796)	(174,796)
January 1, restated	<u>\$ 5,580,769</u>	<u>\$ 2,061,340</u>	<u>\$ 1,862,492</u>	<u>\$ 60,494,152</u>

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental activities	
Cash and pooled investments	\$ 7,311,116
Petty cash and change funds	19,035
Investments	2,548,569
Agency funds	
Cash and pooled investments	<u>1,189,118</u>
Total Cash and Investments	<u>\$ 11,067,838</u>

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$3,256,286. The bank balance deposit amount was \$3,920,286.

Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

	<u>Bank Balance</u>
Covered deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 478,521
Collateralized with securities held by the pledging financial institution's agent in the County's name	<u>3,441,765</u>
Total covered deposits	\$ 3,920,286
Uncollateralized	<u>-</u>
Total	<u>\$ 3,920,286</u>

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

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

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

	Category			Fair Value
	1	2	3	
U.S. government securities	\$ 500,000	\$ -	\$ 3,799,949	\$ 4,299,949
Negotiable certificates of deposit	3,492,568	-	-	3,492,568
Total Investments	\$ 3,992,568	\$ -	\$ 3,799,949	\$ 7,792,517
Add				
Deposits				3,256,286
Petty cash and change funds				19,035
Total Cash and Investments				\$ 11,067,838

2. Receivables

Receivables as of December 31, 2004, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Accounts receivable, gross	\$ 351,873
Less: allowance for social services uncollectible	(172,402)
Net Accounts Receivable	\$ 179,471

3. Capital Assets

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 252,046	\$ -	\$ -	\$ 252,046
Land - infrastructure right-of-way	1,320,475	23,242	-	1,343,717
Land improvements	185,490	-	-	185,490
Construction in progress Infrastructure	<u>193,614</u>	<u>2,147,637</u>	<u>1,020,741</u>	<u>1,320,510</u>
Total capital assets not depreciated	<u>\$ 1,951,625</u>	<u>\$ 2,170,879</u>	<u>\$ 1,020,741</u>	<u>\$ 3,101,763</u>
Capital assets depreciated				
Buildings	\$ 1,492,106	\$ -	\$ -	\$ 1,492,106
Building improvements	989,754	-	-	989,754
Other improvements	177,103	-	-	177,103
Machinery, furniture, and equipment	3,755,144	197,569	110,775	3,841,938
Infrastructure	<u>74,093,609</u>	<u>1,020,741</u>	<u>4,271</u>	<u>75,110,079</u>
Total capital assets depreciated	<u>\$ 80,507,716</u>	<u>\$ 1,218,310</u>	<u>\$ 115,046</u>	<u>\$ 81,610,980</u>
Less: accumulated depreciation for				
Buildings	\$ 602,907	\$ 28,542	\$ -	\$ 631,449
Building improvements	441,082	19,795	-	460,877
Other improvements	33,301	3,542	-	36,843
Machinery, furniture, and equipment	1,465,059	325,904	85,304	1,705,659
Infrastructure	<u>30,437,500</u>	<u>1,283,184</u>	<u>4,271</u>	<u>31,716,413</u>
Total accumulated depreciation	<u>\$ 32,979,849</u>	<u>\$ 1,660,967</u>	<u>\$ 89,575</u>	<u>\$ 34,551,241</u>
Total capital assets depreciated, net	<u>\$ 47,527,867</u>	<u>\$ (442,657)</u>	<u>\$ 25,471</u>	<u>\$ 47,059,739</u>
Governmental Activities Capital Assets, Net	<u>\$ 49,479,492</u>	<u>\$ 1,728,222</u>	<u>\$ 1,046,212</u>	<u>\$ 50,161,502</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General government	\$ 83,736
Public safety	64,734
Highways and streets, including depreciation of infrastructure assets	1,497,321
Sanitation	14,085
Culture and recreation	<u>1,091</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,660,967</u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Social Services	\$ 1,243

C. Liabilities

1. Operating Leases

The County leases Extension Office space under a noncancelable operating lease. The cost for the lease was \$8,026 for the year ended December 31, 2004. The future minimum lease payments for the lease are as follows:

Year Ending December 31	Amount
2005	\$ 8,644
2006	9,261
2007	9,261

2. Short-Term Debt

The County issued and repaid \$175,000 of capital notes during the year ended December 31, 2004. The purpose of this short-term debt was to provide financing for the purchase of public safety, construction, and maintenance equipment under the provisions of Minn. Stat. § 371.01.

3. Long-Term Debt

Loans Payable

Houston County received a grant of \$142,000 from the Minnesota Department of Trade and Economic Development. The County used the grant to make an installment loan to fund an economic development project in the County. The

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt

Loans Payable (Continued)

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, 2004, are \$46,265. The loan payments will be made in the General Fund.

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

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

Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Loans payable	\$ 42,000	\$ -	\$ -	\$ 42,000	\$ -
Compensated absences	668,962	513,259	512,554	669,687	34,516
Long-Term Liabilities	<u>\$ 710,962</u>	<u>\$ 513,259</u>	<u>\$ 512,554</u>	<u>\$ 711,687</u>	<u>\$ 34,516</u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Plan Description

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

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

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

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

For all Public Employees Retirement Fund members whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

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

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2004	\$ 230,008	\$ 50,265	\$ 32,943
2003	227,308	50,260	29,809
2002	229,166	49,135	27,245

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

4. Summary of Significant Contingencies and Other Items

A. Risk Management

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

The Workers' Compensation Division of the MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$760,000 and \$720,000 per claim in 2005 and 2004, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

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 2004.

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 \$3,000 from Houston County.

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

The Workforce Development provides various job training services to several counties. During the year, Houston County paid \$110,716 to the Workforce Development.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

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 \$17,103 to SEMCAC.

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

The Southeastern Minnesota Library provides regional library services to counties and cities in southeastern Minnesota. During the year, Houston County paid \$64,228 to the Library.

The Minnesota Counties Computer Cooperative (MCCC) provides computer programming services to several Minnesota counties. During the year, Houston County paid \$66,992 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.

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 2004, 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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Venture

Family Services Collaborative (Continued)

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

5. Component Unit Disclosures

A. Summary of Significant Accounting Policies

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

Reporting Entity

The Crooked Creek Watershed District was organized on December 1, 1959, under Minn. Stat. ch. 103D. The District is a special purpose unit of government which has taxing authority and can promulgate and implement rules that have the effect and force of law. The District is governed by a five-member Board of Managers who are appointed by the County Board. The purpose of the District is to provide water management within its geographic boundaries, which include the drainage area of Crooked Creek.

Basis of Presentation

The Crooked Creek Watershed District prepares separate financial statements. These statements were prepared in accordance with GASB Statement 34.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

6. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The Crooked Creek Watershed District has governmental funds. The governmental funds are accounted for on the modified accrual basis of accounting.

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REQUIRED SUPPLEMENTARY INFORMATION

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

Schedule 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,834,281	\$ 2,834,281	\$ 2,812,023	\$ (22,258)
Licenses and permits	51,935	51,935	72,764	20,829
Intergovernmental	1,952,620	1,952,620	2,172,560	219,940
Charges for services	1,641,952	1,641,952	1,600,543	(41,409)
Fines and forfeits	53,500	53,500	51,521	(1,979)
Gifts and contributions	-	-	2,203	2,203
Investment earnings	75,100	75,100	158,789	83,689
Miscellaneous	280,252	280,252	338,902	58,650
Total Revenues	\$ 6,889,640	\$ 6,889,640	\$ 7,209,305	\$ 319,665
Expenditures				
Current				
General government				
Commissioners	\$ 176,869	\$ 176,869	\$ 166,184	\$ 10,685
Courts	225,502	225,502	215,246	10,256
County auditor	189,221	189,221	185,502	3,719
License bureau	75,926	75,926	76,459	(533)
County treasurer	118,775	118,775	115,112	3,663
County assessor	286,263	286,263	290,245	(3,982)
Elections	60,666	60,666	53,080	7,586
Data processing	223,113	223,113	216,856	6,257
Personnel	122,383	122,383	117,581	4,802
Attorney	210,816	210,816	209,718	1,098
Law library	23,600	23,600	35,506	(11,906)
Recorder	162,896	162,896	162,254	642
Surveyor	145,203	145,203	146,183	(980)
Planning and zoning	174,182	174,182	157,091	17,091
Buildings and plant	211,235	211,235	207,417	3,818
Veterans service officer	57,004	57,004	52,275	4,729
Unallocated	195,580	195,580	189,201	6,379
Total general government	\$ 2,659,234	\$ 2,659,234	\$ 2,595,910	\$ 63,324
Public safety				
Sheriff	\$ 888,324	\$ 888,324	\$ 922,616	\$ (34,292)
Boat and water safety	8,233	8,233	376	7,857
Coroner	38,430	38,430	44,449	(6,019)
E-911 system	120,114	120,114	81,554	38,560
Law enforcement center	562,263	562,263	666,013	(103,750)
Community corrections	180,810	180,810	232,500	(51,690)
Civil defense	44,574	44,574	98,652	(54,078)
Total public safety	\$ 1,842,748	\$ 1,842,748	\$ 2,046,160	\$ (203,412)

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Transportation				
Airport	\$ 25,400	\$ 25,400	\$ 53,860	\$ (28,460)
Sanitation				
Solid waste	\$ 366,655	\$ 366,655	\$ 435,952	\$ (69,297)
Recycling	307,855	307,855	270,964	36,891
Total sanitation	\$ 674,510	\$ 674,510	\$ 706,916	\$ (32,406)
Health				
Nursing service	\$ 1,229,272	\$ 1,229,272	\$ 1,157,881	\$ 71,391
Transportation	10,000	10,000	9,375	625
Health Center	4,250	4,250	4,250	-
Total health	\$ 1,243,522	\$ 1,243,522	\$ 1,171,506	\$ 72,016
Culture and recreation				
Historical society	\$ 30,600	\$ 30,600	\$ 30,600	\$ -
Parks	15,000	15,000	22,311	(7,311)
Regional library	64,228	64,228	64,228	-
Other	87,020	87,020	93,951	(6,931)
Total culture and recreation	\$ 196,848	\$ 196,848	\$ 211,090	\$ (14,242)
Conservation of natural resources				
Cooperative extension	\$ 108,269	\$ 108,269	\$ 103,740	\$ 4,529
Soil and water conservation	129,000	129,000	129,000	-
Agricultural society/County fair	18,000	18,000	18,000	-
Water planning	23,268	23,268	22,571	697
Predator control	-	-	1	(1)
Total conservation of natural resources	\$ 278,537	\$ 278,537	\$ 273,312	\$ 5,225
Economic development				
Community development	\$ 29,900	\$ 29,900	\$ 27,941	\$ 1,959
Other	5,050	5,050	4,842	208
Total economic development	\$ 34,950	\$ 34,950	\$ 32,783	\$ 2,167
Debt service				
Interest	\$ 2,000	\$ 2,000	\$ 1,764	\$ 236
Bond issuance costs	\$ 700	\$ 700	\$ 618	\$ 82
Total Expenditures	\$ 6,958,449	\$ 6,958,449	\$ 7,093,919	\$ (135,470)

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

Schedule 1
(Continued)

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under) Expenditures	\$ (68,809)	\$ (68,809)	\$ 115,386	\$ 184,195
Other Financing Sources (Uses)				
Proceeds from sale of assets	5,000	5,000	37,918	32,918
Net Change in Fund Balance	\$ (63,809)	\$ (63,809)	\$ 153,304	\$ 217,113
Fund Balance - January 1	\$ 5,589,746	\$ 5,589,746	\$ 5,589,746	\$ -
Prior period adjustment	(8,977)	(8,977)	(8,977)	-
Fund Balance - January 1, as restated	\$ 5,580,769	\$ 5,580,769	\$ 5,580,769	\$ -
Fund Balance - December 31	\$ 5,516,960	\$ 5,516,960	\$ 5,734,073	\$ 217,113

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 827,581	\$ 827,581	\$ 819,186	\$ (8,395)
Licenses and permits	-	1,800	1,990	190
Intergovernmental	6,237,731	4,688,541	5,439,494	750,953
Charges for services	126,000	163,910	176,583	12,673
Investment earnings	40,900	40,900	50,499	9,599
Miscellaneous	8,530	11,030	11,222	192
Total Revenues	\$ 7,240,742	\$ 5,733,762	\$ 6,498,974	\$ 765,212
Expenditures				
Current				
Transportation				
Administration	\$ 173,550	\$ 173,550	\$ 172,758	\$ 792
Maintenance	1,535,303	1,535,303	1,522,549	12,754
Construction	4,921,784	3,404,284	3,487,810	(83,526)
Equipment maintenance and shop	616,606	516,606	498,920	17,686
Total transportation	\$ 7,247,243	\$ 5,629,743	\$ 5,682,037	\$ (52,294)
Debt service				
Principal retirement	132,400	132,400	-	132,400
Interest	1,500	1,500	1,158	342
Bond issuance costs	6,100	6,100	6,099	1
Total Expenditures	\$ 7,387,243	\$ 5,769,743	\$ 5,689,294	\$ 80,449
Excess of Revenues Over (Under) Expenditures	\$ (146,501)	\$ (35,981)	\$ 809,680	\$ 845,661
Other Financing Sources (Uses)				
Proceeds from sale of bonds	131,750	131,750	-	(131,750)
Net Change in Fund Balance	\$ (14,751)	\$ 95,769	\$ 809,680	\$ 713,911
Fund Balance - January 1	2,061,340	2,061,340	2,061,340	-
Increase (decrease) in reserved for inventories	-	-	(20,695)	(20,695)
Fund Balance - December 31	\$ 2,046,589	\$ 2,157,109	\$ 2,850,325	\$ 693,216

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 944,633	\$ 944,633	\$ 940,482	\$ (4,151)
Intergovernmental	2,394,640	2,394,640	2,642,290	247,650
Charges for services	27,845	27,845	13,791	(14,054)
Interest on investments	40,000	40,000	36,529	(3,471)
Miscellaneous	386,152	386,152	-	(386,152)
Total Revenues	\$ 3,793,270	\$ 3,793,270	\$ 3,633,092	\$ (160,178)
Expenditures				
Current				
Human services				
Income maintenance	\$ 806,187	\$ 806,187	\$ 657,907	\$ 148,280
Social services	3,004,024	3,004,024	2,789,534	214,490
Total Expenditures	\$ 3,810,211	\$ 3,810,211	\$ 3,447,441	\$ 362,770
Net Change in Fund Balance	\$ (16,941)	\$ (16,941)	\$ 185,651	\$ 202,592
Fund Balance - January 1	\$ 1,804,227	\$ 1,804,227	\$ 1,804,227	\$ -
Prior period adjustment	58,265	58,265	58,265	-
Fund Balance - January 1, as restated	\$ 1,862,492	\$ 1,862,492	\$ 1,862,492	\$ -
Fund Balance - December 31	\$ 1,845,551	\$ 1,845,551	\$ 2,048,143	\$ 202,592

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

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

1. Budgetary Information

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

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the County Auditor so that a budget can be prepared. Before October 31, the proposed budget is presented to the Houston County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The County's department head may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made no supplemental budgetary appropriations.

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2004, expenditures exceeded appropriations in the General Fund by \$135,470.

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SUPPLEMENTARY INFORMATION

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

AGENCY FUNDS

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

The Crooked Creek Watershed Fund accounts for reimbursements to the Watershed District for operations and the collection of assessments to pay the 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, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CROOKED CREEK WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 308	\$ 13,696	\$ 13,686	\$ 318
<u>Liabilities</u>				
Due to other governments	\$ 308	\$ 13,696	\$ 13,686	\$ 318
 <u>HEALTH</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 56,462	\$ 120,506	\$ 123,740	\$ 53,228
<u>Liabilities</u>				
Accounts payable	\$ 56,462	\$ 120,506	\$ 123,740	\$ 53,228
 <u>REVOLVING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 15,445	\$ 3,576,120	\$ 3,571,749	\$ 19,816
<u>Liabilities</u>				
Due to other governments	\$ 15,445	\$ 3,576,120	\$ 3,571,749	\$ 19,816

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

*Statement 1
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>SOIL AND WATER CONSERVATION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 305,241	\$ 413,900	\$ 413,275	\$ 305,866
<u>Liabilities</u>				
Due to other governments	\$ 305,241	\$ 413,900	\$ 413,275	\$ 305,866
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 77,164	\$ 3,079,283	\$ 3,062,905	\$ 93,542
<u>Liabilities</u>				
Due to other governments	\$ 77,164	\$ 3,079,283	\$ 3,062,905	\$ 93,542
 <u>FAMILY COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 640,009	\$ 771,086	\$ 875,487	\$ 535,608
<u>Liabilities</u>				
Due to other governments	\$ 640,009	\$ 771,086	\$ 875,487	\$ 535,608

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

*Statement 1
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 39,383	\$ 14,540,843	\$ 14,526,376	\$ 53,850
<u>Liabilities</u>				
Accounts payable	\$ 39,383	\$ 53,850	\$ 39,383	\$ 53,850
Due to other funds	-	6,501,813	6,501,813	-
Due to other governments	-	7,985,180	7,985,180	-
Total Liabilities	\$ 39,383	\$ 14,540,843	\$ 14,526,376	\$ 53,850
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 90,113	\$ 4,409,660	\$ 4,382,675	\$ 117,098
<u>Liabilities</u>				
Due to other governments	\$ 90,113	\$ 4,409,660	\$ 4,382,675	\$ 117,098
 <u>HISTORIC BLUFF COUNTRY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,257	\$ 25,850	\$ 28,189	\$ 918
<u>Liabilities</u>				
Due to other governments	\$ 3,257	\$ 25,850	\$ 28,189	\$ 918

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

*Statement 1
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>VICTIM SERVICES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 19,833	\$ 34,044	\$ 45,003	\$ 8,874
<u>Liabilities</u>				
Due to other governments	\$ 19,833	\$ 34,044	\$ 45,003	\$ 8,874
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,247,215	\$ 26,984,988	\$ 27,043,085	\$ 1,189,118
<u>Liabilities</u>				
Accounts payable	\$ 95,845	\$ 174,356	\$ 163,123	\$ 107,078
Due to other funds	-	6,501,813	6,501,813	-
Due to other governments	1,151,370	20,308,819	20,378,149	1,082,040
Total Liabilities	\$ 1,247,215	\$ 26,984,988	\$ 27,043,085	\$ 1,189,118

OTHER SCHEDULE

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

Schedule 4

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

Shared Revenue

State

Highway users tax	\$	4,771,689
HACA		706,535
Market value credit		831,538
PERA rate reimbursement		23,774
Disparity reduction aid		139,710
Police aid		50,260
Temporary court aid		84,232
		84,232

Total Shared Revenue **\$ 6,607,738**

Reimbursement for Services

Minnesota Department of Human Services	\$	898,967
----------------------------------------	----	---------

Payments

Local

Local contribution	\$	16,877
Payments in lieu of taxes		139,522
		139,522

Total Payments **\$ 156,399**

Grants

State

Minnesota Department/Board of		
Corrections	\$	80,739
Public Safety		66,995
Transportation		6,309
Health		178,485
Natural Resources		93,465
Human Services		995,228
Soil and Water Resources		108,619
Office of Environmental Assistance		69,189
Miscellaneous boards		12,596
		12,596

Total State **\$ 1,611,625**

Federal

Department of		
Agriculture	\$	56,109
Transportation		357,607
Homeland Security		39,708
Health and Human Services		524,191
		524,191

Total Federal **\$ 979,615**

Total Grants **\$ 2,591,240**

Total Intergovernmental Revenue **\$ 10,254,344**

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

Schedule 5

**TAX CAPACITY, TAX RATES, LEVIES, AND PERCENTAGE OF COLLECTIONS
FOR CALENDAR YEARS 2003 THROUGH 2005**

	<u>Tax Year 2003</u>		<u>Tax Year 2004</u>		<u>Tax Year 2005</u>	
	<u>Net Tax Capacity</u>	<u>Tax Capacity Rate Percent (%)</u>	<u>Net Tax Capacity</u>	<u>Tax Capacity Rate Percent (%)</u>	<u>Net Tax Capacity</u>	<u>Tax Capacity Rate Percent (%)</u>
Tax Capacity						
Real property	\$ 9,028,102		\$ 9,925,014		\$ 10,990,349	
Personal property	237,259		249,294		275,489	
Tax increment financing	(105,219)		(131,150)		(152,958)	
Net Tax Capacity	\$ 9,160,142		\$ 10,043,158		\$ 11,112,880	
Tax Levied for County						
County Revenue	\$ 3,388,293	37.447	\$ 3,347,172	33.675	\$ 3,582,915	32.696
Road and Bridge	925,727	10.106	993,282	9.89	1,122,528	10.101
Human Services	996,980	10.884	1,140,799	11.359	1,135,557	10.218
Net Tax Levy	\$ 5,311,000	58.437	\$ 5,481,253	54.924	\$ 5,841,000	53.015
Taxable Valuations	Tax Capacity	Market Value	Tax Capacity	Market Value	Tax Capacity	Market Value
Light and Power Tax						
Transmission lines	\$ 5,716	\$ 285,800	\$ 5,876	\$ 293,800	\$ 6,080	\$ 304,000
Distribution lines	324	16,200	334	16,700	346	17,300
Total Taxable Valuations Light and Power	\$ 6,040	\$ 302,000	\$ 6,210	\$ 310,500	\$ 6,426	\$ 321,300
Light and Power Tax Levy						
Transmission lines	\$ 7,374	\$ 356	\$ 346	\$ 7,164	\$ 326	\$ 7,318
Distribution lines	418	20	20	406	18	416
Total Light and Power Tax Levy	\$ 7,792	\$ 376	\$ 366	\$ 7,570	\$ 344	\$ 7,734
Percentage of tax collections for all purposes	99.19%		99.02%			

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

Schedule 6

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

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the financial statements of Houston County.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of Houston County and is reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." It was not a material weakness.
- C. No instances of noncompliance material to the financial statements of Houston County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for Houston County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
 - Highway Planning and Construction
 - CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Houston County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

98-1 Disaster Recovery Plan and Data Processing Security
01-2

As noted in prior audits, Houston County has not developed a formal written disaster recovery plan to ensure continued County operation in the case of a disaster or major computer breakdown. A formal disaster recovery plan would give greater assurance that the County is prepared for a disaster or major computer breakdown. With the County's record management relying more on electronic record keeping, such as an imaging system, the daily operations and financial risks of loss are increasing. The County needs to provide for the continuance of several important services and applications processed by its computer system, including the preparation of payroll, the calculation of tax assessments and settlements, the recording of receipts and disbursements, and imaging documents. Some of these applications provide data needed within very short time spans. Data not easily recoverable could be lost, time could be lost in recovering data, and there would be increased costs to recover the data.

A formal disaster recovery plan should address natural disasters and computer failures. Some of the items commonly found in disaster recovery plans include, but are not limited to, the following:

- A list of key personnel, including the actual recovery team(s), who should be available during the recovery process.
- A description of the responsibilities of each member of the recovery team(s) and of all other County staff.
- A plan of how the County should continue operations until normal operations are re-established. This could include the use of alternative computer facilities or the use of manual procedures.
- A list of materials the County would need to continue operations and how they would be obtained.
- Identification of what space should be used.

- A plan on how back-up data would be obtained from a secure storage area and how the data would be used.
- A timetable of when procedures would take place.
- A schedule for developing, periodically reviewing, testing, and updating the plan.

The County has two security settings on the AS/400 set below the recommended minimums for the AS/400. First, the QDSCJOBTV setting is at 240 (four hours). The recommended value for how long the system waits before ending a disconnected job is 120 (two hours). Second, the QLMTDEVSSN setting is set at 0. This system determines whether a user can be signed on at more than one workstation at the same time. The recommended setting value is 1.

We recommend that the County Board officially develop, implement, and test a disaster recovery plan. All County employees should be familiar with the plan. The plan should detail the steps to be taken to continue operations in the event of a disaster. The plan should have copies with each member of the recovery team(s), in the data center, and stored at a secure off-site location. We also recommend that the County review its security settings for its AS/400 and document the need to not follow recommended security levels and what other procedures it has in place to provide the needed security.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

02-5 Financial Statement Preparation

Minn. Stat. § 375.17 states that the County Board is responsible for having annual financial statements prepared by the first part of March following year-end. The County Board has oversight responsibility to ensure that the annual financial report is prepared in a timely manner. Generally, this means that the County

Board should provide the necessary directives to County staff for the preparation and timely completion of the annual financial report. This includes providing sufficient guidance as to the detail to be prepared, staff training in preparing the annual report, and staff time needed to prepare the annual report. The annual financial report consists of the Management's Discussion and Analysis (MD&A), entity-wide statements, fund level statements, notes to the financial statements, required supplementary information, detailed fund data as needed, and other data as deemed necessary. This data should be prepared in accordance with generally accepted accounting principles for government. As part of the fund financial statements, summary schedules/worksheets should be prepared by County staff to demonstrate how the accounts in the financial records are classified/summarized for the financial report. Preparation means more than balancing the County's general ledger transaction detail.

County management needs to prepare the MD&A, financial statements, notes to the financial statements, and other schedules. The independent auditor is responsible only for attesting to the fairness of the information presented in the financial statements to be included in the County's annual financial report. To facilitate timely reporting, the draft financial report/data should be completed in a timely manner and be available for audit on a date mutually agreed upon.

We recommend that the County Board provide the necessary directives to County staff to prepare the annual financial statements. In order to accomplish this, the County Board should ensure that County staff assigned to prepare this information have a good understanding of generally accepted accounting principles for government and the time necessary to prepare the draft financial report by the agreed dates.

Client's Response:

This is the second year Houston County prepared financial statements according to the new requirements implemented by Governmental Accounting Standards. We are becoming more familiar with them and the information and reports should be completed in a more timely manner in future years.

03-1

Publishing Board Minutes, Financial Statements, and Claims Paid

Minn. Stat. § 375.12 requires County Board minutes to be published within 30 days of the meeting, and this publication is to include an individualized, itemized list of County Board-approved payments over \$300. A statement showing the total number of claims that do not exceed the threshold amount and

their dollar amount must be stated. Minn. Stat. § 375.17 requires the County Board to prepare financial statements not later than March, and these financial statements, or a summary in a form prescribed by the State Auditor, must be published in a duly qualified legal newspaper in the County. If the full statements are published, they must include a listing of all claims paid unless the publication of the minutes contained this data, then this listing would include only vendors being paid more than \$5,000 during the year. Minn. Stat. § 331A.01 discusses how the County can publish summaries. This section does not change the publication of year-end vendor payments as discussed in Minn. Stat. § 375.17. Also, this section requires that the full data be available at a specified County location or by standard or electronic mail.

When the County published the Board minutes, only a summary of fund payments was published. The County's published financial statements included a list of vendors paid more than \$5,000 during the year. Because the published minutes did not include an individualized, itemized list of vendor payments, the year-end individualized, itemized list should have been of all vendors that received payments over the threshold amount and not just those who were paid more than \$5,000 during the year.

The County Board should comply with the above-noted statutes and publish the County Board minutes with vendor payments and annual County financial statements with vendor payments as required. The State Auditor's Office worked with the Association of Minnesota Counties to propose revisions to the publication requirements for county financial data during the 2005 legislative session.

Client's Response:

Houston County will review the Minnesota statutes and the publishing format issued by the Office of the State Auditor for proper publishing of required reports and information.

PREVIOUSLY REPORTED ITEM RESOLVED

Compliance with Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 (02-1)

During the 2003 audit, the County Treasurer was unable to provide to us documentation demonstrating that the County had a perfected security interest in pledged collateral in compliance with FIRREA, 12 USC 1823(e).

Resolution

Houston County depository institutions complied with FIRREA and provided proof of their compliance.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

00-4 Consolidated General Ledger

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

The County Auditor and Road and Bridge Department general ledgers are partially integrated. The disbursement transactions are entered to the cost system by the Road and Bridge Department accountant and interfaced with the County's main general ledger in detail. The receipts transactions are entered to the main general ledger by the County Auditor and entered again by the Road and Bridge accountant as "batched" adjustments to the costing section of the ledger.

Accounting and reporting controls are more efficient and effective when all transactions are accounted for in one centralized general ledger. The County Board and management are better able to implement and maintain internal control over one central computerized system than several decentralized systems. Security access controls to a centralized general ledger could be established so that departments and employees would have the same responsibility and authority for entering detailed transactions as is currently done with separate departmental general ledgers. Managers and employees should have access to assets or records based only on the specific needs commensurate with their positions. A centralized general ledger generally provides more uniformity and consistency in accounting for financial transactions. In addition, it allows senior management to have independent access to financial information for the entire County as needed to manage and monitor its financial operations.

We strongly recommend that the County Board provide the necessary directives to department managers to complete the process of consolidating all transactions into one general ledger system. This would improve efficiencies in maintaining

County financial records and preparing required reports.

Client's Response:

A consolidated general ledger is still a goal for Houston County. Much work has been completed in reaching this goal. A few items still remain to be done.

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OTHER REQUIRED REPORTS

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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Houston County

We have audited the financial statements of Houston County as of and for the year ended December 31, 2004, and have issued our report thereon dated August 18, 2005. We did not audit the financial statements of the Crooked Creek Watershed District, the discretely presented component unit. 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. The financial statements of the Crooked Creek Watershed District were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Houston County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operations that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 98-1/01-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the

internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not 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 items 02-5 and 03-1.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 18, 2005



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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
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 its major federal program for the year ended December 31, 2004. Houston County's major federal program is 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 its major federal program 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 its major federal program for the year ended December 31, 2004.

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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Houston County as of and for the year ended December 31, 2004, and have issued our report thereon dated August 18, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Pat Anderson

/s/Greg Hierlinger

PATRICIA ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 18, 2005

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

Schedule 7

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 48,153
Passed Through Minnesota Department of Human Services Matching Grants for Food Stamp Program	10.561	3,388
Total U.S. Department of Agriculture		\$ 51,541
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 362,323
U.S. Department of Education		
Passed Through Minnesota Department of Public Safety Assistive Technology	84.224	\$ 2,000
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	\$ 28,726
Temporary Assistance for Needy Families	93.558	17,659
Maternal and Child Health Services Block Grant	93.994	23,495
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families	93.558	78,519
Child Care Mandatory and Matching Funds	93.596	121,486
Child Welfare Services - State Grants	93.645	6,060
Foster Care Title IV-E	93.658	82,094
Social Services Block Grant Title XX	93.667	139,236
Chafee Foster Care Independent Living	93.674	4,462
Community Mental Health Services	93.958	2,581
Total U.S. Department of Health and Human Services		\$ 504,318

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

Schedule 7
(Continued)

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program	97.004	\$ 25,218
Emergency Management Performance Grants	97.042	779
Pre-Disaster Mitigation	97.047	11,920
State and Local Emergency Operations Planning	97.051	1,791
Total U.S. Department of Homeland Security		\$ 39,708
Total Federal Awards		\$ 959,890

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Houston County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Because, under the modified accrual basis, receivables not available within 60 days of year-end are not considered revenues, expenditures on this schedule do not equal federal revenues reported in the financial statements.
3. During 2004, Houston County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.