

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

**YEAR ENDED DECEMBER 31, 2007**

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

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

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

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

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

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

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

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

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

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

Office of the State Auditor  
525 Park Street, Suite 500  
Saint Paul, Minnesota 55103  
(651) 296-2551  
state.auditor@state.mn.us  
www.auditor.state.mn.us

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**Year Ended December 31, 2007**



**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, 2007**

			<u>Term Expires</u>
<b>Elected</b>			
Commissioners			
Vice Chair	Larry Graf*	District 1	January 2009
Board Member	Larry Connery	District 2	January 2011
Chair	Ann Thompson**	District 3	January 2009
Board Member	David Corcoran	District 4	January 2011
Board Member	Thomas Bjerke	District 5	January 2009
Attorney	Richard Jackson		January 2011
Auditor	A. Peter Johnson		January 2011
County Recorder	Beverly Bauer		January 2011
County Sheriff	Doug Ely		January 2011
District Judge	James Fabian		January 2009
Treasurer	Audrey M. Petersen		January 2011
<b>Appointed</b>			
Assessor	Thomas Dybing		December 2008
County Engineer	Marcus Evans		May 2011
Coroner	Regional Medical Center		Indefinite
Court Administrator	Darlene Kuhlers		Indefinite
Human Services Director	Beth Wilms		Indefinite
Public Health Nurse	Debra Rock		Indefinite
Veterans Service Officer	Robert Gross		October 2011

\*Chair 2008

\*\*Vice Chair 2008

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Houston County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houston County, Minnesota, as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Houston County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Houston County as of December 31, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 24, 2008, on our consideration of Houston County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 24, 2008

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

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2007  
(Unaudited)**

Houston County's discussion and analysis provides an overview of the County's financial activities for the fiscal year ended December 31, 2007. Since this information is designed to focus on current year activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

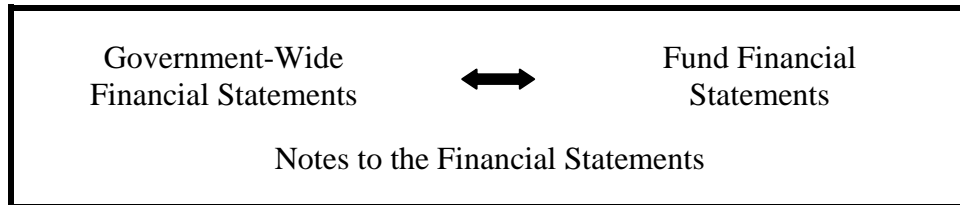
**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net assets are \$65,369,674, of which \$53,929,707 is invested in capital assets and \$3,091,713 is restricted to specific purposes.
- Houston County's net assets decreased by \$313,593 for the year ended December 31, 2007.
- The net cost of governmental activities for the current fiscal year was \$9,203,860. The net cost was funded by general revenues, including taxes and grants.
- Governmental funds' fund balances decreased by \$1,192,014.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

Management's Discussion  
and Analysis  
(Required Supplementary Information)



Required Supplementary Information  
(other than MD&A)

There are two government-wide financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Government-wide financial statements start on page 11. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as an agent for the benefit of those outside of the government.

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

Our analysis of the County as a whole is shown on Exhibits 1 and 2. The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps the reader determine whether the County's financial condition has improved or declined as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

### **Fund Financial Statements**

Our analysis of the County's major funds begins on page 13. The fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

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

### **Reporting the County's Fiduciary Responsibilities**

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

## THE COUNTY AS A WHOLE

The County's net assets decreased from \$65,683,267 to \$65,369,674.

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

	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 14.3	\$ 13.6
Capital assets	<u>53.9</u>	<u>53.7</u>
Total Assets	<u>\$ 68.2</u>	<u>\$ 67.3</u>
Long-term debt outstanding	\$ 1.8	\$ 0.7
Other liabilities	<u>1.0</u>	<u>0.9</u>
Total Liabilities	<u>\$ 2.8</u>	<u>\$ 1.6</u>
Net Assets		
Invested in capital assets	\$ 53.9	\$ 53.7
Restricted	3.1	3.4
Unrestricted	<u>8.4</u>	<u>8.6</u>
Total Net Assets	<u>\$ 65.4</u>	<u>\$ 65.7</u>

Net assets of the County's governmental activities decreased by 0.5 percent (\$65,683,267 compared to \$65,369,674).

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

	<u>2007</u>	<u>2006</u>
Revenues		
Program revenues		
Fees, fines, charges, and other	\$ 2.2	\$ 2.4
Operating grants and contributions	11.5	7.0
Capital grants and contributions	1.7	0.8
General revenues		
Property taxes	6.0	5.4
Other taxes and payments in lieu of taxes	0.3	0.3
Grants and contributions	2.0	2.0
Other general revenues	<u>0.6</u>	<u>0.6</u>
Total Revenues	<u>\$ 24.3</u>	<u>\$ 18.5</u>

	<u>2007</u>	<u>2006</u>
Program expenses		
General government	\$ 3.1	\$ 3.0
Public safety	3.0	2.6
Transportation	10.9	4.6
Human services	4.4	4.2
Health	1.5	1.5
Sanitation	0.9	0.9
Culture and recreation	0.3	0.3
Conservation of natural resources	0.4	0.4
Economic development	0.1	-
	<u>24.6</u>	<u>17.5</u>
Total Program Expenses	\$ 24.6	\$ 17.5
	<u>(0.3)</u>	<u>1.0</u>
Increase (Decrease) in Net Assets	\$ (0.3)	\$ 1.0

### Governmental Activities

The cost of all governmental activities this year was \$24,616,291. However, as shown in the Statement of Activities, the amount that the taxpayers ultimately financed for these activities through County property taxes was only \$6,002,781, because some of the cost was paid by those who directly benefited from the programs (\$2,286,088) or by other governments and organizations that subsidized certain programs with grants and contributions (\$13,126,343). The County paid for most of the remaining “public benefit” portion of governmental activities with \$8,890,267 in general revenues, primarily property taxes and other revenues, such as interest and general entitlements, resulting in a reduction to net assets of \$313,593.

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

**Table 3**  
**Governmental Activities**  
**(in Millions)**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Transportation	\$ 10.9	\$ 4.6	\$ 2.1	\$ 0.2
Human services	4.4	4.2	1.4	1.7
General government	3.1	3.0	2.4	2.3
Public safety	3.0	2.6	2.3	2.1

## **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, 2007, Houston County's governmental funds reported combined ending fund balances of \$8,470,046, a decrease of \$1,192,014 in comparison with 2006. Approximately, 23 percent of this amount (\$1,974,368) 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, 2007, unreserved, undesignated fund balance was \$1,367,681, while total fund balance was \$5,270,119. 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 14 percent of total General Fund expenditures, while total fund balance represents 54 percent of the same amount.

The Road and Bridge Special Revenue Fund's fund balance decreased by \$874,421, for an ending balance of \$1,754,710. There is no unreserved, undesignated fund balance. The Social Services Special Revenue Fund's fund balance decreased by \$173,246 to \$1,445,217, of which \$606,687, or 42 percent, is unreserved, undesignated.

### **General Fund Budgetary Highlights**

Houston County did not revise its General Fund budget during 2007. For the year ended December 31, 2007, expenditures exceeded appropriations by \$949,100, with the largest overages in the general government and public safety functions.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2007, the County had \$53,929,707 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 \$221,608 or 0.4 percent, over last year.

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

	2007	2006
Land	\$ 2.3	\$ 2.2
Construction in progress	1.5	0.4
Buildings and improvements	1.8	1.5
Machinery, vehicles, furniture, and equipment	2.8	2.7
Infrastructure	45.5	46.9
Totals	<u>\$ 53.9</u>	<u>\$ 53.7</u>

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

### Debt

The County is indebted for a \$42,000 loan from the State of Minnesota and an emergency certificate of indebtedness of \$1,000,000 to be repaid with federal emergency management aid.

## 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, Charlene C. Meiners, 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, 2007**

**Assets**

Cash and pooled investments	\$	3,884,654
Petty cash and change funds		17,035
Investments		3,017,474
Taxes receivable		
Prior - net		104,842
Accounts receivable - net		141,447
Accrued interest receivable		53,209
Loan receivable		93,452
Due from other governments		6,670,132
Inventories		300,499
Prepaid items		4,699
Capital assets		
Non-depreciable		3,793,579
Depreciable - net of accumulated depreciation		50,136,128
<b>Total Assets</b>	<b>\$</b>	<b>68,217,150</b>

**Liabilities**

Accounts payable	\$	499,198
Salaries payable		158,897
Contracts payable		176,743
Due to other governments		87,437
Unearned revenue		85,290
Other current liabilities		2,446
Customer deposits		3,183
Long-term liabilities		
Due within one year		41,200
Due in more than one year		1,793,082
<b>Total Liabilities</b>	<b>\$</b>	<b>2,847,476</b>

**Net Assets**

Invested in capital assets	\$	53,929,707
Restricted for		
General government		223,457
Public safety		231,284
Highways and streets		2,437,894
Economic development		199,078
Unrestricted		8,348,254
<b>Total Net Assets</b>	<b>\$</b>	<b>65,369,674</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*EXHIBIT 2*

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Program Revenues</b>			<b>Net (Expense)</b>	
<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Revenues and Change in Net Assets</b>	
<b><u>Functions/Programs</u></b>					
<b>Primary government</b>					
<b>Governmental activities</b>					
General government	\$ 3,062,832	\$ 413,440	\$ 285,627	\$ -	\$ (2,363,765)
Public safety	3,043,623	115,609	669,574	-	(2,258,440)
Transportation	10,875,213	134,056	7,005,029	1,671,441	(2,064,687)
Sanitation	868,518	576,897	180,624	-	(110,997)
Human services	4,438,898	16,025	3,020,017	-	(1,402,856)
Health	1,555,256	978,976	294,031	-	(282,249)
Culture and recreation	340,739	41,063	-	-	(299,676)
Conservation of natural resources	360,209	1,483	-	-	(358,726)
Economic development	71,003	8,539	-	-	(62,464)
<b>Total Governmental Activities</b>	<b>\$ 24,616,291</b>	<b>\$ 2,286,088</b>	<b>\$ 11,454,902</b>	<b>\$ 1,671,441</b>	<b>\$ (9,203,860)</b>
 <b>General Revenues</b>					
Property taxes				\$ 6,002,781	
Mortgage registry and deed tax				12,287	
Other taxes				120	
Payments in lieu of tax				266,321	
Grants and contributions not restricted to specific programs				2,015,356	
Unrestricted investment earnings				419,369	
Miscellaneous				167,432	
Gain on sale of capital assets				6,601	
<b>Total general revenues</b>				<b>\$ 8,890,267</b>	
<b>Change in net assets</b>					<b>\$ (313,593)</b>
<b>Net Assets - Beginning</b>					<b>65,683,267</b>
<b>Net Assets - Ending</b>					<b>\$ 65,369,674</b>

**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*EXHIBIT 3*

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Total</u>
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 4,746,412	\$ (1,315,498)	\$ 453,740	\$ 3,884,654
Petty cash and change funds	16,935	100	-	17,035
Investments	393,534	1,654,784	969,156	3,017,474
Taxes receivable				
Prior	66,139	21,999	16,704	104,842
Accounts receivable	98,118	2,683	40,646	141,447
Loans receivable	93,452	-	-	93,452
Accrued interest receivable	34,071	12,988	6,150	53,209
Due from other governments	242,225	5,973,071	454,836	6,670,132
Prepaid expense	4,699	-	-	4,699
Inventories	-	300,499	-	300,499
<b>Total Assets</b>	<b>\$ 5,695,585</b>	<b>\$ 6,650,626</b>	<b>\$ 1,941,232</b>	<b>\$ 14,287,443</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Total</u>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 173,232	\$ 76,946	\$ 249,020	\$ 499,198
Salaries payable	99,583	30,511	28,803	158,897
Contracts payable	-	176,743	-	176,743
Due to other governments	26,852	23,655	36,930	87,437
Deferred revenue - unavailable	122,616	4,585,615	95,972	4,804,203
Deferred revenue - unearned	-	-	85,290	85,290
Other current liabilities	-	2,446	-	2,446
Customer deposits	3,183	-	-	3,183
<b>Total Liabilities</b>	<b>\$ 425,466</b>	<b>\$ 4,895,916</b>	<b>\$ 496,015</b>	<b>\$ 5,817,397</b>
<b>Fund Balances</b>				
Reserved for				
Loans receivable	\$ 93,452	\$ -	\$ -	\$ 93,452
Inventories	-	300,499	-	300,499
Prepaid items	4,698	-	-	4,698
Highway projects	-	89,474	-	89,474
Recorder's equipment purchases	129,856	-	-	129,856
Recorder's unallocated fund	93,601	-	-	93,601
Enhanced 911	231,284	-	-	231,284
Economic development	105,626	-	-	105,626
Unreserved				
Designated for future expenditures	69,106	91,800	-	160,906
Designated for cash flows	2,688,000	1,090,000	716,000	4,494,000
Designated for compensated absences	486,815	182,937	122,530	792,282
Undesignated	1,367,681	-	606,687	1,974,368
<b>Total Fund Balances</b>	<b>\$ 5,270,119</b>	<b>\$ 1,754,710</b>	<b>\$ 1,445,217</b>	<b>\$ 8,470,046</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,695,585</b>	<b>\$ 6,650,626</b>	<b>\$ 1,941,232</b>	<b>\$ 14,287,443</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2007**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$ 8,470,046</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	53,929,707
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	4,804,203
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)
Certificates of emergency indebtedness	(1,000,000)
Compensated absences	(792,282)
	<u>(1,834,282)</u>
<b>Net Assets of Governmental Activities (Exhibit 1)</b>	<b><u><u>\$ 65,369,674</u></u></b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*EXHIBIT 5*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Total</u>
<b>Revenues</b>				
Taxes	\$ 3,828,197	\$ 1,258,978	\$ 915,604	\$ 6,002,779
Licenses and permits	49,458	1,315	-	50,773
Intergovernmental	3,198,558	7,189,527	3,271,744	13,659,829
Charges for services	1,888,511	126,441	16,025	2,030,977
Fines and forfeits	26,051	-	-	26,051
Gifts and contributions	11,806	-	-	11,806
Investment earnings	292,549	84,009	42,811	419,369
Miscellaneous	338,433	7,286	-	345,719
<b>Total Revenues</b>	<b>\$ 9,633,563</b>	<b>\$ 8,667,556</b>	<b>\$ 4,246,184</b>	<b>\$ 22,547,303</b>
<b>Expenditures</b>				
<b>Current</b>				
General government	\$ 3,308,316	\$ -	\$ -	\$ 3,308,316
Public safety	3,074,361	-	-	3,074,361
Transportation	238,375	10,472,972	-	10,711,347
Sanitation	850,171	-	-	850,171
Human services	-	-	4,419,430	4,419,430
Health	1,551,698	-	-	1,551,698
Culture and recreation	339,648	-	-	339,648
Conservation of natural resources	360,031	-	-	360,031
Economic development	61,911	-	-	61,911
<b>Total Expenditures</b>	<b>\$ 9,784,511</b>	<b>\$ 10,472,972</b>	<b>\$ 4,419,430</b>	<b>\$ 24,676,913</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (150,948)</b>	<b>\$ (1,805,416)</b>	<b>\$ (173,246)</b>	<b>\$ (2,129,610)</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from emergency certificate of indebtedness	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000
Proceeds from sale of capital assets	6,601	-	-	6,601
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 6,601</b>	<b>\$ 1,000,000</b>	<b>\$ -</b>	<b>\$ 1,006,601</b>
<b>Change in Fund Balance</b>	<b>\$ (144,347)</b>	<b>\$ (805,416)</b>	<b>\$ (173,246)</b>	<b>\$ (1,123,009)</b>
<b>Fund Balance - January 1</b>	<b>5,414,466</b>	<b>2,629,131</b>	<b>1,618,463</b>	<b>9,662,060</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>(69,005)</b>	<b>-</b>	<b>(69,005)</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,270,119</b>	<b>\$ 1,754,710</b>	<b>\$ 1,445,217</b>	<b>\$ 8,470,046</b>

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

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ (1,123,009)**

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

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

Deferred revenue - December 31	\$ 4,804,203	
Deferred revenue - January 1	<u>(3,055,409)</u>	1,748,794

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

Expenditures for general capital assets and infrastructure	\$ 2,038,435	
Net book value of assets sold	(3,591)	
Current year depreciation	<u>(1,813,236)</u>	221,608

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

Proceeds of new debt		
Certificate of emergency indebtedness		(1,000,000)

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

Change in compensated absences	\$ (91,981)	
Change in inventories	<u>(69,005)</u>	<u>(160,986)</u>

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ (313,593)**

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**FIDUCIARY FUNDS**

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2007**

	<u>Agency Funds</u>
<b><u>Assets</u></b>	
Cash and pooled investments	<u>\$ 1,471,919</u>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 125,267
Due to other governments	<u>1,346,652</u>
<b>Total Liabilities</b>	<u><u>\$ 1,471,919</u></u>

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

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

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

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

The government-wide statement of net assets is presented on a consolidated basis by column and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts: (1) invested in capital assets, (2) restricted net assets, and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

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

2. Fund Financial Statements

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

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

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

The County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first and then unrestricted resources as needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2007, 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 2007 were \$292,549.

2. Receivables and Payables

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

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

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

All receivables are shown net of an allowance for uncollectibles.

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

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

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

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

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

5. Compensated Absences

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

6. Deferred Revenue

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

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations

In the government-wide statement of net assets, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

8. Fund Equity

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

9. Use of Estimates

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

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 3,884,654
Petty cash and change funds	17,035
Investments	3,017,474
Statement of fiduciary net assets	
Cash and pooled investments	<u>1,471,919</u>
 Total Cash and Investments	 <u>\$ 8,391,082</u>

a. Deposits

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

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

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2007, the County does not have any deposits exposed to custodial credit risk.

b. Investments

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

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

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>2 - 3 Years</u>	<u>3 - 13 Years</u>
Federal Home Loan Bank	\$ 1,975,677	\$ 398,876	\$ 394,983	\$ 1,181,818
Federal Home Loan Mortgage Corporation	199,851	99,851	-	100,000
Government National Mortgage Association Pool	202,802	-	-	202,802
Small Business Administration loan	22,966	-	22,966	-
Negotiable certificates of deposit	2,570,773	484,204	678,215	1,408,354
Total Investments	<u>\$ 4,972,069</u>	<u>\$ 982,931</u>	<u>\$ 1,096,164</u>	<u>\$ 2,892,974</u>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

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

	<u>Credit Rating</u>	<u>Rating Agency</u>	<u>Fair Value</u>
Federal Home Loan Bank	AAA	Standard & Poor's	\$ 1,975,677
Federal Home Loan Mortgage Corporation	AAA	Standard & Poor's	199,851
Small Business Administration loan	AAA	Standard & Poor's	22,966

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2007, none of Houston County's investments were subject to custodial credit risk.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

<u>Issuer</u>	<u>Reported Amount</u>
Federal Home Loan Bank	\$ 1,975,677
Federal Home Loan Mortgage Corporation	199,851

2. Receivables

Receivables as of December 31, 2007, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Accounts receivable, gross	\$ 426,953
Less: allowance for social services uncollectible	<u>(285,506)</u>
Net Accounts Receivable	<u>\$ 141,447</u>

The loans receivable balance of \$93,452 includes \$84,351, which is not scheduled for collection in the subsequent year.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 623,802	\$ 93,023	\$ -	\$ 716,825
Land - infrastructure right-of-way	1,352,266	11,884	-	1,364,150
Land improvements	249,870	1,218	-	251,088
Construction in progress - infrastructure	421,024	1,040,492	-	1,461,516
<b>Total capital assets not depreciated</b>	<b>\$ 2,646,962</b>	<b>\$ 1,146,617</b>	<b>\$ -</b>	<b>\$ 3,793,579</b>
Capital assets depreciated				
Buildings	\$ 1,456,842	\$ 210,825	\$ -	\$ 1,667,667
Building improvements	1,026,825	-	-	1,026,825
Other improvements	191,467	162,014	-	353,481
Machinery, furniture, and equipment	4,574,671	677,586	538,211	4,714,046
Infrastructure	81,007,389	-	-	81,007,389
<b>Total capital assets depreciated</b>	<b>\$ 88,257,194</b>	<b>\$ 1,050,425</b>	<b>\$ 538,211</b>	<b>\$ 88,769,408</b>
Less: accumulated depreciation for				
Buildings	\$ 677,954	\$ 29,945	\$ -	\$ 707,899
Building improvements	500,776	20,537	-	521,313
Other improvements	44,119	5,449	-	49,568
Machinery, furniture, and equipment	1,910,553	367,512	376,014	1,902,051
Infrastructure	34,062,655	1,389,794	-	35,452,449
<b>Total accumulated depreciation</b>	<b>\$ 37,196,057</b>	<b>\$ 1,813,237</b>	<b>\$ 376,014</b>	<b>\$ 38,633,280</b>
<b>Total capital assets depreciated, net</b>	<b>\$ 51,061,137</b>	<b>\$ (762,812)</b>	<b>\$ 162,197</b>	<b>\$ 50,136,128</b>
Governmental Activities Capital Assets, Net	<b>\$ 53,708,099</b>	<b>\$ 383,805</b>	<b>\$ 162,197</b>	<b>\$ 53,929,707</b>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General government	\$ 73,433
Public safety	67,792
Transportation, including depreciation of infrastructure assets	1,643,482
Sanitation	18,347
Culture and recreation	1,091
Economic development	9,092
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$ 1,813,237</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds (Continued)

B. Liabilities

1. Emergency Certificate of Indebtedness

The County has entered into an emergency certificate of indebtedness. The emergency certificate of indebtedness is dated December 11, 2007, matures on December 11, 2010, and bears interest at a rate of 4.3 percent per annum, payable at maturity or at any time prior to maturity without any prepayment penalty. The County intends to pay back the emergency certificate of indebtedness with Federal Emergency Management Aid when received:

<u>Maturity</u>	<u>Installment</u>	<u>New Amount</u>	<u>Original</u>	<u>Balance</u>
2010	Varies	\$ 1,000,000	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

Debt service requirements at December 31, 2007, were as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ -	\$ 43,000
2009	-	43,000
2010	<u>1,000,000</u>	<u>43,000</u>
Total	<u>\$ 1,000,000</u>	<u>\$ 129,000</u>

2. Loans Payable

Houston County received a grant of \$142,000 from the Minnesota Department of Employment and Economic Development. The County used the grant to make an installment loan to fund an economic development project in the County. The County is entitled to the first \$100,000 of principal and interest repayments, and the remaining \$42,000 is to be repaid to the state. Payments on the state loan are deferred until December 2012 when monthly payments of \$1,205, including interest at 6.0 percent, will be made until March 2016. Total payments due from 2012 to 2016, including interest of \$4,265 at December 31, 2007, are \$46,265. The loan payments will be made by the General Fund.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

B. Liabilities

2. Loans Payable (Continued)

Debt service requirements at December 31, 2007, were as follows:

Year Ending December 31	State Loan	
	Principal	Interest
2012	\$ 24	\$ 5
2013 - 2016	41,976	4,260
Total	<u>\$ 42,000</u>	<u>\$ 4,265</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Emergency certificate of indebtedness	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000	\$ -
Loans payable	42,000	-	-	42,000	-
Compensated absences	700,301	91,981	-	792,282	41,200
Long-Term Liabilities	<u>\$ 742,301</u>	<u>\$ 1,091,981</u>	<u>\$ -</u>	<u>\$ 1,834,282</u>	<u>\$ 41,200</u>

3. Employee Retirement Systems and Pension Plans

A. Plan Description

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

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

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

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

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

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered salary in 2007. That rate increased to 8.60 percent in 2008. 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 in 2007 and 2008:

	<u>2007</u>	<u>2008</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50
Public Employees Police and Fire Fund	11.70	12.90
Public Employees Correctional Fund	8.75	8.75

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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3. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

The County's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2007	2006	2005
Public Employees Retirement Fund	\$ 308,597	\$ 272,291	\$ 234,998
Public Employees Police and Fire Fund	79,375	56,669	50,532
Public Employees Correctional Fund	39,595	37,771	35,631

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

4. Summary of Significant Contingencies and Other Items

A. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$400,000 and \$410,000 per claim in 2007 and 2008, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

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

B. Contingent Liabilities

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer the Agricultural Best Management Loan Program to individuals to implement projects that prevent or mitigate nonpoint source water pollution. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2007.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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

C. Jointly-Governed Organizations

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

The Southeast Minnesota Water Resources Board provides regional water quality services to several counties. During the year, the Board received \$3,300 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 \$117,168 to the Workforce Development.

The Southeast Minnesota Community Action Council (SEMCCAC) provides various social services emergency assistance services to several counties. It also provides housing and redevelopment for Houston County through Bluff Country. During the year, Houston County paid \$28,295 to SEMCCAC.

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

The Southeastern Minnesota Library provides regional library services to counties and cities in southeastern Minnesota. During the year, Houston County paid \$98,371 to the Library.

The Minnesota Counties Computer Cooperative (MCCC) provides computer programming services to several Minnesota counties. During the year, Houston County paid \$79,565 to the MCCC.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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

D. Joint Venture

Family Services Collaborative

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

Control of the Collaborative is vested in a Board of Directors. Houston County appoints two members to this Board. Houston County acts as fiscal agent for the Collaborative. The Collaborative is financed by state grants and appropriations from participating members. During 2007, Houston County provided no funding. In the event of withdrawal from the Collaborative, the withdrawing party shall give a 30-day notice. The withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of termination shall be distributed by the governing board.

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

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

E. Subsequent Event

Flood

In early summer of 2008, Houston County incurred a natural disaster due to flooding. The resulting repairs to infrastructure were major to the County. The County was declared a natural disaster by the federal government.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**Schedule 1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 3,844,643	\$ 3,844,643	\$ 3,828,197	\$ (16,446)
Licenses and permits	54,395	54,395	49,458	(4,937)
Intergovernmental	2,350,271	2,350,271	3,198,558	848,287
Charges for services	2,081,214	2,081,214	1,888,511	(192,703)
Fines and forfeits	25,000	25,000	26,051	1,051
Gifts and contributions	-	-	11,806	11,806
Investment earnings	152,400	152,400	292,549	140,149
Miscellaneous	307,875	307,875	338,433	30,558
<b>Total Revenues</b>	<b>\$ 8,815,798</b>	<b>\$ 8,815,798</b>	<b>\$ 9,633,563</b>	<b>\$ 817,765</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 234,161	\$ 234,161	\$ 444,278	\$ (210,117)
Courts	39,000	39,000	48,444	(9,444)
County auditor	212,006	212,006	228,346	(16,340)
Motor vehicle/licence bureau	85,150	85,150	83,081	2,069
County treasurer	133,089	133,089	125,014	8,075
County assessor	335,200	335,200	322,606	12,594
Elections	32,145	32,145	30,491	1,654
Data processing	333,595	333,595	347,603	(14,008)
Personnel	153,572	153,572	147,273	6,299
Attorney	283,385	283,385	248,256	35,129
Law library	29,500	29,500	29,647	(147)
Recorder	185,544	185,544	220,545	(35,001)
Surveyor	168,515	168,515	147,449	21,066
Planning and zoning	245,882	245,882	170,070	75,812
Buildings and plant	266,588	266,588	355,563	(88,975)
Veterans service officer	115,247	115,247	133,444	(18,197)
Other general government	240,625	240,625	226,206	14,419
<b>Total general government</b>	<b>\$ 3,093,204</b>	<b>\$ 3,093,204</b>	<b>\$ 3,308,316</b>	<b>\$ (215,112)</b>
<b>Public safety</b>				
Sheriff	\$ 1,059,791	\$ 1,059,791	\$ 1,173,763	\$ (113,972)
Boat and water safety	6,830	6,830	60,912	(54,082)
Emergency services	-	-	74,288	(74,288)
Coroner	45,000	45,000	43,347	1,653
E-911 system	129,502	129,502	127,935	1,567
County jail	980,388	980,388	956,060	24,328
Community corrections	262,423	262,423	250,167	12,256
Civil defense	53,512	53,512	387,889	(334,377)
<b>Total public safety</b>	<b>\$ 2,537,446</b>	<b>\$ 2,537,446</b>	<b>\$ 3,074,361</b>	<b>\$ (536,915)</b>

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

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Transportation</b>				
Airport	\$ 26,565	\$ 26,565	\$ 238,375	\$ (211,810)
<b>Sanitation</b>				
Solid waste	\$ 512,074	\$ 512,074	\$ 517,051	\$ (4,977)
Recycling	368,558	368,558	333,120	35,438
<b>Total sanitation</b>	<b>\$ 880,632</b>	<b>\$ 880,632</b>	<b>\$ 850,171</b>	<b>\$ 30,461</b>
<b>Health</b>				
Nursing services	\$ 1,587,535	\$ 1,587,535	\$ 1,536,125	\$ 51,410
Transportation	10,000	10,000	10,000	-
Health center (waivered services)	5,250	5,250	5,573	(323)
<b>Total health</b>	<b>\$ 1,602,785</b>	<b>\$ 1,602,785</b>	<b>\$ 1,551,698</b>	<b>\$ 51,087</b>
<b>Culture and recreation</b>				
Historical society	\$ 38,200	\$ 38,200	\$ 38,200	\$ -
Parks	27,863	27,863	76,705	(48,842)
County/regional library	98,375	98,375	98,371	4
Other culture and recreation	111,820	111,820	126,372	(14,552)
<b>Total culture and recreation</b>	<b>\$ 276,258</b>	<b>\$ 276,258</b>	<b>\$ 339,648</b>	<b>\$ (63,390)</b>
<b>Conservation of natural resources</b>				
County extension	\$ 166,092	\$ 166,092	\$ 165,881	\$ 211
Soil and water conservation	152,000	152,000	152,000	-
Agriculture society/county fair	18,000	18,000	18,000	-
Water planning	23,147	23,147	24,150	(1,003)
<b>Total conservation of natural resources</b>	<b>\$ 359,239</b>	<b>\$ 359,239</b>	<b>\$ 360,031</b>	<b>\$ (792)</b>
<b>Economic development</b>				
Community development	\$ 54,232	\$ 54,232	\$ 56,799	\$ (2,567)
Other economic development	5,050	5,050	5,112	(62)
<b>Total economic development</b>	<b>\$ 59,282</b>	<b>\$ 59,282</b>	<b>\$ 61,911</b>	<b>\$ (2,629)</b>
<b>Total Expenditures</b>	<b>\$ 8,835,411</b>	<b>\$ 8,835,411</b>	<b>\$ 9,784,511</b>	<b>\$ (949,100)</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*Schedule 1*  
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Excess of Revenues Over (Under) Expenditures</b>	\$ (19,613)	\$ (19,613)	\$ (150,948)	\$ (131,335)
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	-	-	6,601	6,601
<b>Change in Fund Balance</b>	\$ (19,613)	\$ (19,613)	\$ (144,347)	\$ (124,734)
<b>Fund Balance - January 1</b>	<u>5,414,466</u>	<u>5,414,466</u>	<u>5,414,466</u>	-
<b>Fund Balance - December 31</b>	<u>\$ 5,394,853</u>	<u>\$ 5,394,853</u>	<u>\$ 5,270,119</u>	<u>\$ (124,734)</u>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,270,353	\$ 1,270,353	\$ 1,258,978	\$ (11,375)
Licenses and permits	1,000	1,000	1,315	315
Intergovernmental	6,640,607	6,640,607	7,189,527	548,920
Charges for services	155,750	155,750	126,441	(29,309)
Charges for services	25,600	25,600	84,009	58,409
Miscellaneous	8,600	8,600	7,286	(1,314)
<b>Total Revenues</b>	<b>\$ 8,101,910</b>	<b>\$ 8,101,910</b>	<b>\$ 8,667,556</b>	<b>\$ 565,646</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Transportation</b>				
Administration	\$ 202,807	\$ 202,807	\$ 217,705	\$ (14,898)
Maintenance	2,031,538	2,031,538	6,223,269	(4,191,731)
Construction	5,023,151	5,023,151	3,089,591	1,933,560
Equipment maintenance and shop	1,066,245	1,066,245	942,407	123,838
<b>Total Expenditures</b>	<b>\$ 8,323,741</b>	<b>\$ 8,323,741</b>	<b>\$ 10,472,972</b>	<b>\$ (2,149,231)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (221,831)</b>	<b>\$ (221,831)</b>	<b>\$ (1,805,416)</b>	<b>\$ (1,583,585)</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from emergency certificate of indebtedness	-	-	1,000,000	1,000,000
<b>Change in Fund Balance</b>	<b>\$ (221,831)</b>	<b>\$ (221,831)</b>	<b>\$ (805,416)</b>	<b>\$ (583,585)</b>
<b>Fund Balance - January 1</b>	<b>2,629,131</b>	<b>2,629,131</b>	<b>2,629,131</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>(69,005)</b>	<b>(69,005)</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,407,300</b>	<b>\$ 2,407,300</b>	<b>\$ 1,754,710</b>	<b>\$ (652,590)</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 932,154	\$ 932,154	\$ 915,604	\$ (16,550)
Intergovernmental	3,193,154	3,193,154	3,271,744	78,590
Charges for services	20,130	20,130	16,025	(4,105)
Interest on investments	51,000	51,000	42,811	(8,189)
<b>Total Revenues</b>	<b>\$ 4,196,438</b>	<b>\$ 4,196,438</b>	<b>\$ 4,246,184</b>	<b>\$ 49,746</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 874,788	\$ 874,788	\$ 987,620	\$ (112,832)
Social services	3,321,650	3,321,650	3,431,810	(110,160)
<b>Total Expenditures</b>	<b>\$ 4,196,438</b>	<b>\$ 4,196,438</b>	<b>\$ 4,419,430</b>	<b>\$ (222,992)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (173,246)</b>	<b>\$ (173,246)</b>
<b>Fund Balance - January 1</b>	<b>1,618,463</b>	<b>1,618,463</b>	<b>1,618,463</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,618,463</b>	<b>\$ 1,618,463</b>	<b>\$ 1,445,217</b>	<b>\$ (173,246)</b>

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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1. Budgetary Information

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

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

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

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2007, expenditures exceeded appropriations in the General Fund by \$949,100, in the Road and Bridge Special Revenue Fund by \$2,149,231, and in the Social Services Special Revenue Fund by \$222,992. These over-expenditures were funded by prior year fund equity.

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**SUPPLEMENTARY INFORMATION**

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**AGENCY FUNDS**

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

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

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

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

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

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

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

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

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

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

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

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*Statement 1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>CROOKED CREEK WATERSHED</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>609</u>	\$ <u>19,534</u>	\$ <u>19,303</u>	\$ <u>840</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>609</u>	\$ <u>19,534</u>	\$ <u>19,303</u>	\$ <u>840</u>
 <b><u>HEALTH</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>52,205</u>	\$ <u>183,710</u>	\$ <u>188,058</u>	\$ <u>47,857</u>
<b><u>Liabilities</u></b>				
Accounts payable	\$ <u>52,205</u>	\$ <u>183,710</u>	\$ <u>188,058</u>	\$ <u>47,857</u>
 <b><u>REVOLVING</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>15,787</u>	\$ <u>3,210,245</u>	\$ <u>3,194,876</u>	\$ <u>31,156</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>15,787</u>	\$ <u>3,210,245</u>	\$ <u>3,194,876</u>	\$ <u>31,156</u>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*Statement 1*  
*(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>SOIL AND WATER CONSERVATION</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 371,460	\$ 1,195,733	\$ 913,679	\$ 653,514
<b><u>Liabilities</u></b>				
Due to other governments	\$ 371,460	\$ 1,195,733	\$ 913,679	\$ 653,514
 <b><u>SCHOOL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 206,742	\$ 4,563,229	\$ 4,545,695	\$ 224,276
<b><u>Liabilities</u></b>				
Due to other governments	\$ 206,742	\$ 4,563,229	\$ 4,545,695	\$ 224,276
 <b><u>FAMILY COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 261,566	\$ 208,666	\$ 279,532	\$ 190,700
<b><u>Liabilities</u></b>				
Due to other governments	\$ 261,566	\$ 208,666	\$ 279,532	\$ 190,700

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 57,047	\$ 18,907,424	\$ 18,888,034	\$ 76,437
<b><u>Liabilities</u></b>				
Accounts payable	\$ 57,047	\$ 76,437	\$ 57,047	\$ 76,437
Due to other funds	-	8,324,136	8,324,136	-
Due to other governments	-	10,506,851	10,506,851	-
<b>Total Liabilities</b>	<b>\$ 57,047</b>	<b>\$ 18,907,424</b>	<b>\$ 18,888,034</b>	<b>\$ 76,437</b>
<b><u>TOWNS AND CITIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 206,768	\$ 5,301,263	\$ 5,269,370	\$ 238,661
<b><u>Liabilities</u></b>				
Due to other governments	\$ 206,768	\$ 5,301,263	\$ 5,269,370	\$ 238,661
<b><u>HISTORICAL BLUFF COUNTRY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 162	\$ 12,322	\$ 11,511	\$ 973
<b><u>Liabilities</u></b>				
Accounts payable	\$ 162	\$ 12,322	\$ 11,511	\$ 973

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

***Statement 1  
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>VICTIM SERVICES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>14,099</u>	\$ <u>36,385</u>	\$ <u>42,979</u>	\$ <u>7,505</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>14,099</u>	\$ <u>36,385</u>	\$ <u>42,979</u>	\$ <u>7,505</u>
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>1,186,445</u>	\$ <u>33,638,511</u>	\$ <u>33,353,037</u>	\$ <u>1,471,919</u>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 109,414	\$ 272,469	\$ 256,616	\$ 125,267
Due to other funds	-	8,324,136	8,324,136	-
Due to other governments	<u>1,077,031</u>	<u>25,041,906</u>	<u>24,772,285</u>	<u>1,346,652</u>
<b>Total Liabilities</b>	<b>\$ <u>1,186,445</u></b>	<b>\$ <u>33,638,511</u></b>	<b>\$ <u>33,353,037</u></b>	<b>\$ <u>1,471,919</u></b>

## **OTHER SCHEDULES**

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**Schedule 4**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**Shared Revenue**

**State**

Highway users tax	\$	4,416,669
PERA rate reimbursement		23,776
Disparity reduction aid		123,272
Police aid		59,305
County program aid		1,004,717
Market value credit		863,591
Enhanced 911		95,704
		95,704

**Total Shared Revenue** **\$ 6,587,034**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$	1,109,638
		1,109,638

**Payments**

**Local**

Payments in lieu of taxes	\$	266,321
		266,321

**Grants**

**State**

Minnesota Department of		
Public Safety	\$	394,765
Transportation		11,378
Health		155,564
Natural Resources		133,983
Human Services		1,392,257
Corrections		82,797
Veterans Affairs		3,746
Pollution Control Agency		52,039
Water and Soil Resources Board		101,164
Peace Officer Standards and Training Board		4,020
		4,020

**Total State** **\$ 2,331,713**

**Federal**

Department of		
Agriculture	\$	77,686
Transportation		476,924
Health and Human Services		578,361
Homeland Security		2,232,121
Environmental Protection Agency		31
		31

**Total Federal** **\$ 3,365,123**

**Total State and Federal Grants** **\$ 5,696,836**

**Total Intergovernmental Revenue** **\$ 13,659,829**

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

Schedule 5

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

	Tax Year 2006		Tax Year 2007		Tax Year 2008	
	Net Tax Capacity	Tax Capacity Rate Percent (%)	Net Tax Capacity	Tax Capacity Rate Percent (%)	Net Tax Capacity	Tax Capacity Rate Percent (%)
<b>Tax Capacity</b>						
Real property	\$ 12,224,102		\$ 13,531,276		\$ 14,751,185	
Personal property	269,973		279,763		379,938	
Tax increment financing	(140,092)		(152,630)		(142,222)	
<b>Net Tax Capacity</b>	<b>\$ 12,353,983</b>		<b>\$ 13,658,409</b>		<b>\$ 14,988,901</b>	
<b>Tax Levied for County</b>						
County Revenue	\$ 3,901,411	32.125	\$ 4,386,195	32.600	\$ 4,710,972	31.892
Road and Bridge	1,304,136	10.556	1,466,186	10.735	1,927,191	12.857
Human Services	1,146,453	9.280	1,065,119	7.798	1,266,962	8.453
<b>Net Tax Levy</b>	<b>\$ 6,352,000</b>	<b>51.961</b>	<b>\$ 6,917,500</b>	<b>51.133</b>	<b>\$ 7,905,125</b>	<b>53.202</b>
	<b>Tax Capacity</b>	<b>Market Value</b>	<b>Tax Capacity</b>	<b>Market Value</b>	<b>Tax Capacity</b>	<b>Market Value</b>
<b>Taxable Valuations</b>						
Light and Power Tax						
Transmission lines	\$ 6,202	\$ 310,100	\$ 6,098	\$ 304,900	\$ 5,642	\$ 282,100
Distribution lines	354	17,700	376	18,800	348	17,400
<b>Total Taxable Valuations - Light and Power</b>	<b>\$ 6,556</b>	<b>\$ 327,800</b>	<b>\$ 6,474</b>	<b>\$ 323,700</b>	<b>\$ 5,990</b>	<b>\$ 299,500</b>
<b>Light and Power Tax Levy</b>						
Transmission lines	\$ 7,204	\$ 434	\$ 6,804	\$ 558	\$ 6,356	\$ 554
Distribution lines	412	24	420	34	392	34
<b>Total Light and Power Tax Levy</b>	<b>\$ 7,616</b>	<b>\$ 458</b>	<b>\$ 7,224</b>	<b>\$ 592</b>	<b>\$ 6,748</b>	<b>\$ 588</b>
<b>Percentage of Tax Collections for All Purposes</b>	<b>98.99%</b>		<b>98.93%</b>			



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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*Schedule 6*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

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

- A. Our report expresses unqualified opinions on the basic financial statements of Houston County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Houston County and is reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." We consider some of the deficiencies to be material weaknesses.
- C. No instances of noncompliance material to the financial statements of Houston County were disclosed during the audit.
- D. Significant deficiencies relating to the audit of the major federal award programs are 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." They are not material weaknesses.
- E. The Auditor's Report on Compliance for the major federal award programs for Houston County expresses an unqualified opinion.
- F. Findings relative to a major federal award program for Houston County were reported as required by Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- |   |              |
|---|--------------|
| Airport Improvement Program                           | CFDA #20.106 |
| Child Care Cluster                                    |              |
| Child Care Development Block Grant                    | CFDA #93.575 |
| Child Care Mandatory and Matching Funds of the        |              |
| Child Care and Development Fund                       | CFDA #93.596 |
| Public Assistance (Presidentially Declared Disasters) | CFDA #97.036 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-1 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. Statement on Auditing Standards No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

Adjustments were made to reclassify intergovernmental revenues in the General Fund, Road and Bridge Special Revenue Fund, and the Social Services Special Revenue Fund. Adjustments were also needed in the General Fund, Road and Bridge Special Revenue Fund, and Social Services Special Revenue Fund for increasing, decreasing, and reclassifying receivables and deferred revenue. Adjustments to correct fund balance were required to accurately classify the County's reserved and unreserved fund balance in the General Fund, Road and Bridge Special Revenue Fund, and Social Services Special Revenue Fund. Adjusting entries were also needed to eliminate duplicate payables in the Social Services Special Revenue Fund to record additional payables in the General Fund.

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

We recommend the County establish internal procedures to ensure the trial balances accurately reflect the County's financial position.

Client's Response:

*Houston County has requested and received documentation of the audit adjustments. These will be reviewed and changes made in the financial system or in the receipting/payment processes to correctly identify revenues/expenditures, deferred revenues and receivables/payables.*

06-2 Segregation of Duties and Investment Oversight

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

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

Client's Response:

*Houston County will address the issues of Segregation of Duties and Investment Oversight in the Treasurer's Office.*

06-3 Financial Statement Preparation

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

The County had the Office of the State Auditor assist in the preparation of the draft financial statements and notes, without the controls of clearly documented procedures for executing accounting and financial reporting activities. Significant staffing constraints within County financial management staff limit its ability to conduct the annual financial statement preparation process and contribute to lax procedures and controls for preparing

and safeguarding financial data. Uniform policies and procedures for the financial statement preparation process are critical for ensuring that accounting personnel can produce complete, accurate, and consistent financial statements in a timely manner. In order for the Office of the State Auditor to assist in the preparation of the draft financial statements and notes, and maintain his/her independence, Houston County must take responsibility for the statements and notes.

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

Client's Response:

*Houston County has hired a financial director who will be responsible for preparation of the financial statements.*

ITEMS ARISING THIS YEAR

07-1 Segregation of Duties Relating to Payroll

Review of the Paymate payroll system revealed that any individual authorized to use the Paymate system can access all aspects of the system. This includes adding new employees, entering payroll information, changing employee information, changing hourly wage, and withholdings.

We recommend the County contact the Paymate vendor and establish access limitations to those individuals the County has authorized to make changes to payroll.

Client's Response:

*The County will implement procedures where Tim will review and approve any changes to employee pay rates when the bi-weekly payroll is processed. Prior to transmittal of the payroll a logging list will be generated which will indicate any pay rate additions or changes made by the two staff and who have access to the payroll system. The logging list will be printed and given to Tim Comstock for review. Once the logging list is approved, a signed copy will be filed in the payroll book.*

07-2 Disbursement Internal Controls

While reviewing County disbursements we noted the following exceptions:

- Two claims for credit card purchases did not have itemized supporting documentation.
- Two claims on County credit cards were not paid in a timely manner in accordance with Minn. Stat. § 471.425. The County was assessed a late fee and finance charges for not paying in a timely manner.
- Two Human Services claims did not have the client's signature as required by Houston County.

We recommend that invoices be paid in a timely manner in accordance with legal requirements and proper signatures be present on the voucher or invoice prior to payment. We also recommend the County require vendor receipts for credit card purchases.

Client's Response:

*Houston County will make every effort to pay invoices in a timely manner to avoid late fees and penalties with proper signatures prior to payment. The credit card policy will be reviewed and updated as necessary.*

07-3 Disbursements Segregation of Duties and New Vendors

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

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

Client's Response:

*An added vendor log will be printed, reviewed and filed.*

07-4 Annual Inventory of Capital Assets

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

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

Client's Response:

*The Capital Asset procedures and policies will be reviewed and updated as necessary to ensure proper reporting and tracking of assets.*

07-5 Investment Policy

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

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

Client's Response:

*Houston County will adopt an Investment Policy.*

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

A. COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

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

Questioned Costs: \$57,317

Although improvements have occurred as compared with prior years, in our testing of child care compliance, we noted the following noncompliance items. Houston County did not have age verification for 3 case files, had incorrect co-payment amounts in 5 case files, and failed to redetermine 7 cases in a timely manner, causing incorrect co-payment amounts and noncompliance with program requirements in the 40 case files tested. Based on sample testing, the amount of questioned costs projected to the population amounts to \$57,317. Age verification is required as part of eligibility documentation for the case files. The redetermination of child care cases is required to be done every six months to determine if the participant is still eligible for the program; any changes within the household would require an update to the co-payment calculation. Incorrect co-payments were also caused by misreading of the co-payment schedule or looking at an incorrect income amount.

The Social Services Department in Houston County should follow the eligibility checklist and maintain the participant files with the required information in order to comply with program requirements. Financial workers should make sure the required information is documented in the child care case files. Redetermination dates should be scheduled, performed, and documented properly in the case files.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Bonnie Goetzinger, Financial Assistance Supervisor*

Corrective Action Planned:

*Proper age verification: On two of the cases cited for age verification we did have Court Orders, and now have them in the files. For the other case Parent brought in the Birth Certificate as soon as we called her.*

*For the cases cited for timely redeterminations and the incorrect co-pays the new system will take care of all of that. We will complete conversion by the end of October. Mec2 has all tools for tracking reviews and applying the correct co-payment.*

*The County did hire a Case Aide who strictly works on the Childcare Programs, which I believe will be an asset to our determining eligibility and having the case files correct.*

Anticipated Completion Date:

*October 31, 2008*

B. INTERNAL CONTROL

ITEMS ARISING THIS YEAR

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

The County does not have policies and procedures in place for the disposition of property acquired with federal grant awards. The grant agreement requires the County to keep possession of the property for 20 years. If property is sold prior to the end of that 20-year period, the grant agreement requires the County to pay back the entire grant award to the federal government.

We recommend the County establish policies and procedures that identify the property purchased with federal funds, state what procedures to take if the property is disposed of, indicate the percentage of federal funds that would need to be reimbursed, or document that the funds were used for a permitted purpose. It may also be useful to indicate on the capital asset system that these assets were purchased with federal funds.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Sheila Schroeder, Highway Accountant and Carol Lapham, IT Manager*

Corrective Action Planned:

*The County has indicated within its Capital Asset System the source of funds as being a Federal Capital Asset. Additionally, it has created a narrative with the specific grant agreement language as to how long the asset must be maintained, the date of final payment of federal funds, and the percentage of federal funds that must be reimbursed should the asset be disposed of before the timeframe.*

*In addition, the Capital Asset Policy has been updated and will be reviewed by the new Financial Director and approved by the Board in the future.*

Anticipated Completion Date:

*December 1, 2008*

07-8

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

While testing internal accounting controls over the Child Care Program, we noted vendor claims had not been signed by the appropriate parties. Vendor claims are to be signed by the provider and participant and approved by the financial workers of the County. We tested 40 vendor claims, and 3 of the claims were missing one of the appropriate party signatures.

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

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Bonnie Goetzinger, Financial Assistance Supervisor*

Corrective Action Planned:

*All child care billing forms will be checked over for both the Provider/Client signature and accuracy by the financial workers. Worker will then sign, and give to Accountant who will also be double checking for signatures. This should correct the issue of any signatures being missed.*

Anticipated Completion Date:

*October 31, 2008*

PREVIOUSLY ITEMS REPORTED RESOLVED

**Controls Over Child Care Case Files (05-3)**

During our review of the Child Care Program control procedures, we found a lack of controls for monitoring case files.

**Resolution**

The County is now monitoring the Child Care case files.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

01-2 Disaster Recovery Plan

Houston County has an informal disaster recovery agreement with another county but does not have a formal disaster recovery plan. A disaster recovery plan gives assurance the County is prepared for a disaster or major computer breakdown. The County needs to provide services to County residents after a disaster and during a major computer breakdown. Services that need to be addressed include

the continuance of several important applications processed by its computer system, including the preparation of payroll, the calculation of tax assessments and settlements, and the recording of receipts and disbursements.

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

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

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

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

in the data center, and stored at a secure offsite location. We also recommend the County review its security settings for its AS/400 and document the need not to follow recommended security levels and what other procedures it has in place to provide the needed security.

Client's Response:

*Houston County will continue its efforts to adopt a comprehensive disaster recovery plan.*

ITEM ARISING THIS YEAR

07-6

Credit Card Policy

The County Board has authorized several credit cards within the County, but has not adopted a formal credit card policy for the use of the cards. A credit card policy should address who is authorized to use the card, what documentation is needed for payment of the credit card bill, and limitations on the use of the card.

We recommend the County Board approve a Credit Card Policy that:

- identifies employees and elected officials who are authorized to make purchases on behalf of the County and are eligible to use the credit cards,
- identifies particular purchases that are to be made with the credit cards,
- sets up a review process for all purchases made with the credit cards,
- prohibits the use of credit cards for personal purchases, and
- requires supporting documentation for all purchases, made with credit cards.

We also recommend that the County consider restricting the total amount of charges that can be made on the credit cards, thereby limiting exposure to theft or other improper uses of the credit cards.

Client's Response:

*Houston County will adopt a credit card policy.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Data Private Information (06-4)**

As part of the payroll process, the payroll tape was brought to Merchants Bank of Caledonia without encrypting the floppy disk. The bank did not have a secure website for the County to send the information electronically, so a diskette was being used.

**Resolution**

The County has payroll data now being transferred electronically to the financial institution.

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

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

*Schedule 6*  
*(Continued)*

This year, the legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows governments to create both irrevocable and revocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both irrevocable and revocable OPEB trusts; and
- it also permits governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

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

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

GASB Statement 45 would be applicable to Houston County for the year ended December 31, 2008.

## **OTHER REQUIRED REPORTS**

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

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

Board of County Commissioners  
Houston County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houston County as of and for the year ended December 31, 2007, and have issued our report thereon dated September 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Houston County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 06-1 through 06-3 and 07-1 through 07-5 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 06-1 and 06-2 to be material weaknesses.

### Compliance and Other Matters

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

### Minnesota Legal Compliance

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

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

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

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

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

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 24, 2008

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

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(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

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

Board of County Commissioners  
Houston County

### Compliance

We have audited the compliance of Houston County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. Houston County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Houston County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 05-2.

### Internal Control Over Compliance

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

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

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 07-7 and 07-8 to be significant deficiencies.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houston County as of and for the year ended December 31, 2007, and have issued our report thereon dated September 24, 2008. Our audit was performed for the purpose of forming opinions on the County's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 24, 2008

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

Schedule 7

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 67,218
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	467
Food Stamp Program Outreach Grant	10.580	10,001
<b>Total U.S. Department of Agriculture</b>		<b>\$ 77,686</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 977,837
Airport Improvement Program	20.106	253,146
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	4,910
<b>Total U.S. Department of Transportation</b>		<b>\$ 1,235,893</b>
<b>U.S. Environmental Protection Agency</b>		
Passed Through Minnesota Department of Health State Indoor Radon Grant	66.032	\$ 31
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health Centers for Disease Control and Prevention	93.283	\$ 27,789
Temporary Assistance for Needy Families (TANF)	93.558	25,684
Maternal and Child Health Services Block Grant	93.994	20,695
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families (TANF)	93.558	87,642
Child Care Development Cluster		
Child Care Development Block Grants	93.575	81,350
Child Care Mandatory and Matching Funds	93.596	125,077
Child Welfare Services - State Grants	93.645	7,444
Foster Care Title IV-E	93.658	94,111
Social Services Block Grant Title XX	93.667	112,572
Chafee Foster Care Independence Program	93.674	3,599
Community Health Block Grant	93.958	8,035
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 593,998</b>

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

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*Schedule 7*  
*(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 43,963
Passed Through Minnesota Department of Public Safety		
Public Assistance Grant	97.036	2,767,068
Emergency Management Performance Grant	97.042	10,816
Homeland Security Grant Program	97.067	4,167
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 2,826,014</b>
<b>Total Federal Awards</b>		<b>\$ 4,733,622</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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1. Reporting Entity

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

2. Basis of Presentation

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

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

3. Reconciliation to Schedule of Intergovernmental Revenues

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 3,365,123
Airport Improvement Program grant deferred in 2006 and recognized in 2007	(57,882)
Highway Planning and Construction grant received more than 60 days after year-end	817,837
State and Community Highway Safety grant deferred in 2006 and recognized in 2007	(986)
Public Assistance grant received more than 60 days after year-end	593,893
Temporary Assistance for Needy Families grant received more than 60 days after year-end	16,674
Child Welfare Services grant received more than 60 days after year-end.	187
Independent Living grant received more than 60 days after year end	<u>(1,224)</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 4,733,622</u>

4. Pass-Through Grant Numbers

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

5. Subgrants

During 2007, the County did not pass any federal money to subrecipients.