STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

HOUSTON COUNTY
CALEDONIA, MINNESOTA

YEAR ENDED DECEMBER 31, 2009

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

Year Ended December 31, 2009

Audit Practice Division
Office of the State Auditor
State of Minnesota

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

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CALEDONIA, MINNESOTA

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Introductory Section

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

ORGANIZATION
DECEMBER 31, 2009

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

[1]Chair 2009
[2]Vice Chair 2009
[3]Interim Appointment

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Houston County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houston County, Minnesota, as of and for the year ended December 31, 2009, 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, 2009, 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 schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 16, 2010, on our consideration of Houston County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

September 16, 2010

MANAGEMENT’S DISCUSSION AND ANALYSIS

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009
(Unaudited)

Houston County's discussion and analysis provides an overview of the County's financial activities for the fiscal year ended December 31, 2009. 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 $67,976,916, of which $53,978,281 is invested in capital assets and $5,999,490 is restricted to specific purposes.

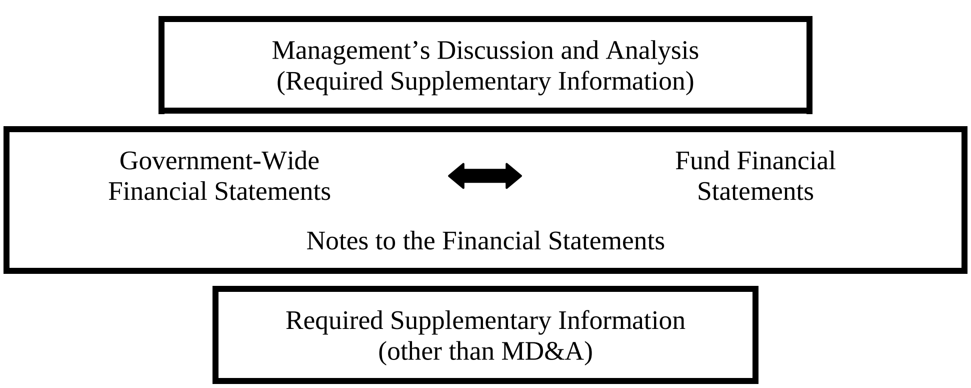
- Houston County's net assets increased by $2,865,758 for the year ended December 31, 2009.

- The net cost of governmental activities for the current fiscal year was $8,081,585. The net cost was funded by general revenues, including taxes and grants.

- Governmental funds' fund balances increased by $11,612,801.

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), certain budgetary comparison schedules, and the Schedule of Funding Progress are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are interrelated.



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

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

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

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

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

Fund Financial Statements

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

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

Reporting the County's Fiduciary Responsibilities

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

THE COUNTY AS A WHOLE

The County's net assets increased from $65,111,158 to $67,976,916.

Table 1
Net Assets
(in Millions)

	2009	2008
Current and other assets	$ 30.6	$ 17.3
Capital assets	56.2	54.6
Total Assets	$ 86.8	$ 71.9
Long-term debt outstanding	$ 11.9	$ 4.1
Other liabilities	6.9	2.7
Total Liabilities	$ 18.8	$ 6.8
Net Assets		
Invested in capital assets	$ 54.0	$ 54.6
Restricted	6.0	3.6
Unrestricted	8.0	6.9
Total Net Assets	$ 68.0	$ 65.1

Net assets of the County's governmental activities increased by four percent ($67,976,916 compared to $65,111,158).

Table 2
Changes in Net Assets
(in Millions)

	2009	2008
Revenues		
Program revenues		
Fees, fines, charges, and other	$ 2.4	$ 2.6
Operating grants and contributions	10.6	13.3
Capital grants and contributions	-	0.3
General revenues		
Property taxes	7.9	6.8
Other taxes and payments in lieu of taxes	0.4	0.4
Grants and contributions	2.0	1.9
Other general revenues	0.6	0.7
Total Revenues	$ 23.9	$ 26.0
Program expenses		
General government	$ 3.7	$ 3.4
Public safety	3.0	3.4
Transportation	6.6	11.3
Human services	4.3	4.5
Health	1.6	1.6
Sanitation	0.8	0.8
Culture and recreation	0.3	0.3
Conservation of natural resources	0.4	0.4
Economic development	0.1	0.6
Interest	0.3	-
Total Program Expenses	$ 21.1	$ 26.3
Increase (Decrease) in Net Assets	$ 2.8	$ (0.3)

Governmental Activities

The cost of all governmental activities this year was $21,005,743. However, as shown in the Statement of Activities, the amount that the taxpayers ultimately financed for these activities through County property taxes was only $7,862,676 because some of the cost was paid by those who directly benefited from the programs ($2,418,686) or by other governments and organizations that subsidized certain programs with grants and contributions ($10,505,472). The County paid for most of the remaining "public benefit" portion of governmental activities with $10,947,343 in general revenues, primarily property taxes and other revenues, such as interest and general entitlements, resulting in an increase to net assets of $2,865,758.

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

Table 3
Governmental Activities
(in Millions)

	Total Cost of Services		Net Cost of Services	
	2009	2008	2009	2008
Transportation	$ 6.6	$ 11.3	$ -	$ 2.6
Human services	4.3	4.5	1.3	1.6
General government	3.7	3.4	3.0	2.7
Public safety	3.0	3.4	2.5	2.3

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

At December 31, 2009, Houston County's governmental funds reported combined ending fund balances of $17,608,498, an increase of $11,612,801 in comparison with 2008. The County is reporting an undesignated fund balance of $1,384,773 in 2009. 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, 2009, unreserved, undesignated fund balance was $804,039, while total fund balance was $5,747,319. 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 7.8 percent of total General Fund expenditures, while total fund balance represents 55.4 percent of the same amount.

The Road and Bridge Special Revenue Fund's fund balance increased by $1,936,280, for an ending balance of $1,676,254, none of which is unreserved, undesignated fund balance. The Social Services Special Revenue Fund's fund balance decreased by $38,113 to $1,327,547, of which $580,734, or 43.7 percent, is unreserved, undesignated.

General Fund Budgetary Highlights

Houston County did revise its General Fund budget during 2009 to reflect anticipated losses of state revenues. For the year ended December 31, 2009, expenditures exceeded appropriations by $66,359. The largest surpluses occurred in intergovernmental revenues and other general government expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009, the County had $56,169,454 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 $1,517,849, or 2.8 percent, over last year.

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

	2009	2008
Land	$ 2.9	$ 2.7
Construction in progress	2.7	2.0
Buildings and improvements	2.2	1.9
Machinery, vehicles, furniture, and equipment	2.9	2.7
Infrastructure	45.5	45.3
Totals	$ 56.2	$ 54.6

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

Debt

Table 5
Outstanding Debt at Year-End
(Net of Depreciation, in Millions)

	Governmental Activities	
	2009	2008
General obligation bonds	$ 10.1	$ -
Capital notes	0.7	-
Loans payable	-	-
Totals	$ 10.8	$ -

Loans payable represents a loan repayable to the State of Minnesota for the establishment of a revolving loan fund for economic development purposes.

CONTACTING HOUSTON COUNTY'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2009

Assets		
Cash and pooled investments	$	18,136,408
Petty cash and change funds		17,035
Investments		2,877,581
Taxes receivable		
Prior - net		176,028
Accounts receivable - net		271,322
Accrued interest receivable		37,309
Loan receivable		1,384,121
Due from other governments		6,785,202
Inventories		559,463
Restricted assets		
Cash and pooled investments		411,456
Accrued interest receivable		325
Capital assets		
Non-depreciable		5,563,658
Depreciable - net of accumulated depreciation		50,605,796
Total Assets	**$**	**86,825,704**
Liabilities		
Accounts payable	$	602,638
Salaries payable		267,446
Contracts payable		531,371
Due to other governments		265,753
Accrued interest payable		69,941
Unearned revenue		1,421,151
Customer deposits		8,730
Advance from other governments		3,739,278
Long-term liabilities		
Due within one year		451,060
Due in more than one year		11,491,420
Total Liabilities	**$**	**18,848,788**
Net Assets		
Invested in capital assets, net of related debt	$	53,978,281
Restricted for		
General government		306,254
Public safety		362,129
Debt service		253,593
Highways and streets		4,534,764
Economic development		542,750
Unrestricted		7,999,145
Total Net Assets	**$**	**67,976,916**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Expenses	Program Revenues: Fees, Charges, Fines, and Other	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenues and Change in Net Assets
Functions/Programs				
Primary government				
Governmental activities				
General government	$ 3,673,508	$ 379,212	$ 322,053	$ (2,972,243)
Public safety	3,006,549	120,360	365,591	(2,520,598)
Transportation	6,586,327	247,513	6,359,170	20,356
Sanitation	739,845	407,520	82,975	(249,350)
Human services	4,276,023	119,964	2,883,036	(1,273,023)
Health	1,584,962	1,077,132	315,878	(191,952)
Culture and recreation	335,954	56,784	-	(279,170)
Conservation of natural resources	379,211	1,744	-	(377,467)
Economic development	139,939	8,457	176,769	45,287
Interest	283,425	-	-	(283,425)
Total Governmental Activities	**$ 21,005,743**	**$ 2,418,686**	**$ 10,505,472**	**$ (8,081,585)**

General Revenues	
Property taxes	$ 7,862,676
Mortgage registry and deed tax	14,304
Other taxes	126,274
Payments in lieu of tax	295,146
Grants and contributions not restricted to specific programs	2,074,781
Unrestricted investment earnings	317,983
Miscellaneous	237,449
Gain on sale of capital assets	18,730
Total general revenues	**$ 10,947,343**
Change in net assets	**$ 2,865,758**
Net Assets - Beginning	**65,111,158**
Net Assets - Ending	**$ 67,976,916**

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

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

HOUSTON COUNTY
CALEDONIA, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	General	Road and Bridge
Assets		
Cash and pooled investments	$ 4,940,938	$ 3,270,242
Petty cash and change funds	16,935	100
Investments	562,537	1,815,044
Taxes receivable		
Prior	111,969	37,775
Accounts receivable	166,219	2,055
Loans receivable	1,384,121	-
Accrued interest receivable	28,922	7,538
Due from other governments	112,263	6,236,255
Inventories	-	559,463
Restricted cash and pooled investments	411,456	-
Restricted accrued interest receivable	325	-
Total Assets	**$ 7,735,685**	**$ 11,928,472**

EXHIBIT 3

Social Services	Debt Service	Capital Projects	Total
$ 787,620	$ 251,752	$ 8,885,856	$ 18,136,408
-	-	-	17,035
500,000	-	-	2,877,581
22,309	3,975	-	176,028
103,048	-	-	271,322
-	-	-	1,384,121
849	-	-	37,309
436,684	-	-	6,785,202
-	-	-	559,463
-	-	-	411,456
-	-	-	325
$ 1,850,510	**$ 255,727**	**$ 8,885,856**	**$ 30,656,250**

HOUSTON COUNTY
CALEDONIA, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	General	Road and Bridge
Liabilities and Fund Balances		
Liabilities		
Accounts payable	$ 219,525	$ 178,193
Salaries payable	169,229	48,129
Contracts payable	-	249,300
Due to other governments	127,448	3,485
Deferred revenue - unavailable	99,999	6,033,833
Deferred revenue - unearned	1,363,435	-
Customer deposits	8,730	-
Advance from other governments	-	3,739,278
Total Liabilities	**$ 1,988,366**	**$ 10,252,218**
Fund Balances		
Reserved for		
Debt service	$ -	$ -
Loans receivable	402,046	-
Inventories	-	559,463
Sheriff's forfeited property	2,219	-
Attorney's forfeited property	1,011	-
Sheriff's permit to carry	29,345	-
Highway projects	-	96,298
Capital projects	-	-
Recorder's equipment purchases	189,142	-
Recorder's unallocated fund	116,101	-
Enhanced 911	330,565	-
Economic development	140,704	-
Unreserved		
Designated for future expenditures	69,106	600,000
Designated for cash flows	3,120,834	215,876
Designated for compensated absences	542,207	204,617
Undesignated	804,039	-
Total Fund Balances	**$ 5,747,319**	**$ 1,676,254**
Total Liabilities and Fund Balances	**$ 7,735,685**	**$ 11,928,472**

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

EXHIBIT 3
(Continued)

Social Services	Debt Service	Capital Projects	Total
$ 204,920	$ -	$ -	$ 602,638
50,088	-	-	267,446
-	-	282,071	531,371
134,820	-	-	265,753
75,419	2,134	-	6,211,385
57,716	-	-	1,421,151
-	-	-	8,730
-	-	-	3,739,278
$ 522,963	**$ 2,134**	**$ 282,071**	**$ 13,047,752**
$ -	$ 253,593	$ -	$ 253,593
-	-	-	402,046
-	-	-	559,463
-	-	-	2,219
-	-	-	1,011
-	-	-	29,345
-	-	-	96,298
-	-	8,603,785	8,603,785
-	-	-	189,142
-	-	-	116,101
-	-	-	330,565
-	-	-	140,704
-	-	-	669,106
595,846	-	-	3,932,556
150,967	-	-	897,791
580,734	-	-	1,384,773
$ 1,327,547	**$ 253,593**	**$ 8,603,785**	**$ 17,608,498**
$ 1,850,510	**$ 255,727**	**$ 8,885,856**	**$ 30,656,250**

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2009**

Fund balances - total governmental funds (Exhibit 3)		**$ 17,608,498**
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.		56,169,454
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		6,211,385
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Loans payable	$ (42,000)	
Capital notes payable	(730,000)	
Capital note discount	9,000	
Bonds payable	(10,115,000)	
Bond premium	(100,110)	
Accrued interest payable	(69,941)	
Net OPEB obligation	(66,579)	
Compensated absences	(897,791)	(12,012,421)
Net Assets of Governmental Activities (Exhibit 1)		**$ 67,976,916**

HOUSTON COUNTY
CALEDONIA, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	General	Road and Bridge
Revenues		
Taxes	$ 5,163,100	$ 1,663,180
Licenses and permits	46,230	770
Intergovernmental	2,676,644	6,005,524
Charges for services	2,077,364	333,119
Fines and forfeits	17,926	-
Gifts and contributions	2,222	-
Investment earnings	226,313	81,601
Miscellaneous	247,271	5,237
Total Revenues	**$ 10,457,070**	**$ 8,089,431**
Expenditures		
Current		
General government	$ 4,025,811	$ -
Public safety	2,966,707	-
Transportation	171,087	6,697,404
Sanitation	782,073	-
Human services	-	-
Health	1,555,613	-
Culture and recreation	334,863	-
Conservation of natural resources	378,908	-
Economic development	139,000	-
Capital outlay	-	-
Debt service		
Bond issuance costs	19,160	-
Total Expenditures	**$ 10,373,222**	**$ 6,697,404**
Excess of Revenues Over (Under) Expenditures	**$ 83,848**	**$ 1,392,027**
Other Financing Sources (Uses)		
Premium on bonds/notes issued	$ 5,510	$ -
Capital notes issued	334,400	395,600
General obligation bonds issued	440,000	-
Discount on bonds/notes issued	(9,000)	-
Proceeds from sale of capital assets	2,498	32,550
Total Other Financing Sources (Uses)	**$ 773,408**	**$ 428,150**
Change in Fund Balance	**$ 857,256**	**$ 1,820,177**
Fund Balance - January 1	**4,890,063**	**(260,026)**
Increase (decrease) in reserved for inventories	**-**	**116,103**
Fund Balance - December 31	**$ 5,747,319**	**$ 1,676,254**

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

Social Services	Debt Service	Capital Projects	Total
$ 929,745	$ 220,636	$ -	$ 7,976,661
-	-	-	47,000
3,201,601	32,957	-	11,916,726
84,166	-	-	2,494,649
-	-	-	17,926
-	-	-	2,222
10,069	-	-	317,983
35,798	-	-	288,306
$ 4,261,379	**$ 253,593**	**$ -**	**$ 23,061,473**
$ -	$ -	$ -	$ 4,025,811
-	-	-	2,966,707
-	-	-	6,868,491
-	-	-	782,073
4,299,492	-	-	4,299,492
-	-	-	1,555,613
-	-	-	334,863
-	-	-	378,908
-	-	-	139,000
-	-	971,491	971,491
-	-	194,324	213,484
$ 4,299,492	**$ -**	**$ 1,165,815**	**$ 22,535,933**
$ (38,113)	**$ 253,593**	**$ (1,165,815)**	**$ 525,540**
$ -	$ -	$ 94,600	$ 100,110
-	-	-	730,000
-	-	9,675,000	10,115,000
-	-	-	(9,000)
-	-	-	35,048
$ -	**$ -**	**$ 9,769,600**	**$ 10,971,158**
$ (38,113)	**$ 253,593**	**$ 8,603,785**	**$ 11,496,698**
1,365,660	**-**	**-**	**5,995,697**
-	**-**	**-**	**116,103**
$ 1,327,547	**$ 253,593**	**$ 8,603,785**	**$ 17,608,498**

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, 2009

Net change in fund balances - total governmental funds (Exhibit 5)			**$**	**11,496,698**
Amounts reported for governmental activities in the statement of activities are different because:				
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.				
Deferred revenue - December 31	$	6,211,385		
Deferred revenue - January 1		(5,371,229)		840,156
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	$	3,612,793		
Net book value of assets disposed		(241,658)		
Current year depreciation		(1,853,286)		1,517,849
Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net assets. Also, governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of net assets.				
Proceeds of new debt				
General obligation bonds issued		(10,115,000)		
Premium on bonds issued		(100,110)		
Discount on notes issued		9,000		
Capital notes issued		(730,000)		(10,936,110)
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	$	(68,475)		
Change in accrued interest payable		(69,941)		
Change in net OPEB obligation		(30,522)		
Change in inventories		116,103		(52,835)
Change in Net Assets of Governmental Activities (Exhibit 2)			**$**	**2,865,758**

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

FIDUCIARY FUNDS

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2009

		Agency Funds
Assets		
Cash and pooled investments	**$**	**1,845,738**
Liabilities		
Accounts payable	$	91,201
Due to other governments		1,754,537
Total Liabilities	**$**	**1,845,738**

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

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2009. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

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

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

1. Summary of Significant Accounting Policies

   A. Financial Reporting Entity (Continued)

      Joint Ventures

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

   B. Basic Financial Statements

      1. Government-Wide Statements

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

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

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

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements (Continued)

      2. Fund Financial Statements

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

         The County reports the following major governmental funds:

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

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

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

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

         The Capital Projects Fund is used to account for financial resources to be used for the construction of the criminal justice center.

         The County also 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.

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Houston County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2009, 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 2009 were $226,313.

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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

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

All receivables are shown net of an allowance for uncollectibles.

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

3. Inventories and Prepaid Items

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

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

1. Summary of Significant Accounting Policies

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

4. Capital Assets

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

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

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

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

5. Compensated Absences

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

1. Summary of Significant Accounting Policies

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

6. Deferred Revenue

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

7. Long-Term Obligations

In the government-wide statement of net assets, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the 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.

1. Summary of Significant Accounting Policies

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

9. Use of Estimates

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	$ 18,136,408
Petty cash and change funds	17,035
Investments	2,877,581
Restricted cash	411,456
Statement of fiduciary net assets	
Cash and pooled investments	1,845,738
Total Cash and Investments	$ 23,288,218

a. Deposits

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's policy is to minimize deposit custodial credit risk, which is the risk of loss or failure of the depository bank (or credit union), by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2009, the County does not have any deposits exposed to custodial credit risk.

b. Investments

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

(1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

(4) bankers' acceptances of United States banks;

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

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

Interest Rate Risk

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Interest Rate Risk (Continued)

Investment Type	Fair Value	Less Than 1 Year	2 - 3 Years	3 - 13 Years
Federal Home Loan Bank	$ 26,393	$ -	$ 26,393	$ -
Federal National Mortgage Association	73,170	-	-	73,170
Fannie Mae	200,924	-	-	200,924
Negotiable certificates of deposit	2,601,682	99,725	697,435	1,804,522
Total Investments	$ 2,902,169	$ 99,725	$ 723,828	$ 2,078,616

Credit Risk

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

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

	Credit Rating	Rating Agency	Fair Value
Federal Home Loan Bank	AAA	Standard & Poor's	$ 26,393
Federal National Mortgage Association	AAA	Standard & Poor's	73,170
Fannie Mae	AAA	Standard & Poor's	200,924

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County's policy is to minimize custodial credit risk by limiting investments with any one broker to no more than ten percent of its Securities Investor Protection Corporation coverage plus any excess coverage if provided. At December 31, 2009, none of Houston County's investments were subject to custodial credit risk.

Concentration of Credit Risk

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

Issuer	Reported Amount
Fannie Mae	$ 200,924

2. Receivables

Receivables as of December 31, 2009, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Accounts receivable, gross	$ 636,344
Less: allowance for uncollectible	(365,022)
Net Accounts Receivable	$ 271,322

2. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

The loans receivable balance of $1,384,121 includes $1,373,863, which is not scheduled for collection in the subsequent year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 1,091,358	$ -	$ -	$ 1,091,358
Land - infrastructure right-of-way	1,390,384	165,777	-	1,556,161
Land improvements	251,088	-	-	251,088
Construction in progress	2,009,171	2,298,075	1,642,195	2,665,051
Total capital assets not depreciated	$ 4,742,001	$ 2,463,852	$ 1,642,195	$ 5,563,658
Capital assets depreciated				
Buildings	$ 1,860,149	$ -	$ 65,784	$ 1,794,365
Building improvements	1,026,825	378,845	-	1,405,670
Other improvements	353,481	-	-	353,481
Machinery, furniture, and equipment	4,733,881	788,795	525,745	4,996,931
Infrastructure	82,137,052	1,623,496	62,046	83,698,502
Total capital assets depreciated	$ 90,111,388	$ 2,791,136	$ 653,575	$ 92,248,949
Less: accumulated depreciation for				
Buildings	$ 739,952	$ 36,536	$ 11,512	$ 764,976
Building improvements	541,850	24,956	-	566,806
Other improvements	56,638	7,069	-	63,707
Machinery, furniture, and equipment	2,035,795	391,919	365,506	2,062,208
Infrastructure	36,827,549	1,392,806	34,899	38,185,456
Total accumulated depreciation	$ 40,201,784	$ 1,853,286	$ 411,917	$ 41,643,153
Total capital assets depreciated, net	$ 49,909,604	$ 937,850	$ 241,658	$ 50,605,796
Governmental Activities Capital Assets, Net	$ 54,651,605	$ 3,401,702	$ 1,883,853	$ 56,169,454

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities		
General government	$	91,284
Public safety		80,303
Highways and streets, including depreciation of infrastructure assets		1,660,854
Sanitation		19,754
Culture and recreation		1,091
Total Depreciation Expense - Governmental Activities	$	1,853,286

B. Liabilities

1. Loans Payable

Houston County received a grant of $142,000 from the Minnesota Department of Employment and Economic Development. The County used the grant to make an installment loan to fund an economic development project in the County. The County is entitled to the first $100,000 of principal and interest repayments, and the remaining $42,000 is to be repaid to the state. Payments on the state loan are deferred until December 2012 when monthly payments of $1,205, including interest at 6.0 percent, will be made until March 2016. Total payments due from 2012 to 2016, including interest of $4,265 at December 31, 2009, are $46,265. The loan payments will be made in the General Fund.

Loans payable requirements at December 31, 2009, were as follows:

Year Ending December 31	State Loan Principal	State Loan Interest
2012	$ 24	$ 5
2013	12,276	2,185
2014	13,033	1,427
2015 - 2016	16,667	648
Total	$ 42,000	$ 4,265

2. Detailed Notes on All Funds

B. Liabilities (Continued)

2. Bonded Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2009
General obligation bonds and notes					
2009A G.O. Capital Obligation Notes	2012	$257,937 - $250,390	1.8 - 2.2	$ 730,000	$ 730,000
2009B G.O. Capital Improvement Plan Bonds	2019	$178,793 - $462,144	2.00 - 3.25	2,865,000	2,865,000
2009C G.O. Jail Bonds	2030	$66,717 - $821,600	3.00 - 4.00	7,250,000	7,250,000
Total General Obligation Bonds and Notes				$ 10,845,000	$ 10,845,000

3. Debt Service Requirements

Debt service requirements at December 31, 2009, were as follows:

Year Ending December 31	General Obligation Capital Notes Principal	General Obligation Capital Notes Interest
2010	$ 245,000	$ 18,032
2011	240,000	7,790
2012	245,000	2,695
Total	$ 730,000	$ 28,517

Year Ending December 31	General Obligation Bonds Principal	General Obligation Bonds Interest
2010	$ 160,000	$ 247,654
2011	165,000	322,638
2012	165,000	319,337
2013	160,000	316,087
2014	295,000	311,538
2015 - 2019	2,185,000	1,407,213
2020 - 2024	2,755,000	1,027,450
2025 - 2029	3,440,000	497,944
2030	790,000	15,800
Total	$ 10,115,000	$ 4,465,661

2. Detailed Notes on All Funds

B. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
2009A G.O. Capital Notes	$ -	$ 730,000	$ -	$ 730,000	$ 245,000
2009B G.O. Capital Improvement Plan Bonds	-	2,865,000	-	2,865,000	160,000
2009C G.O. Jail Bonds	-	7,250,000	-	7,250,000	-
Premium on Bonds	-	100,110	-	100,110	-
Less: discount on bonds	-	(9,000)	-	(9,000)	-
Total bonds payable	$ -	$ 10,936,110	$ -	$ 10,936,110	$ 405,000
Loans payable	42,000	-	-	42,000	-
Compensated absences	829,316	68,475	-	897,791	46,060
Net OPEB obligation	36,057	54,597	24,075	66,579	-
Long-Term Liabilities	$ 907,373	$ 11,059,182	$ 24,075	$ 11,942,480	$ 451,060

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.

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

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

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

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

For all Public Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

B. Funding Policy

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

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

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

3. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

The County's contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2009	2008	2007
Public Employees Retirement Fund	$ 350,593	$ 328,460	$ 308,597
Public Employees Police and Fire Fund	118,253	100,222	79,375
Public Employees Correctional Fund	43,465	43,811	39,595

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

C. Other Postemployment Benefits (OPEB)

Plan Description

The County provides health insurance benefits for certain retired employees under a single-employer self-insured health care plan, financed and administered by the Southeast Service Cooperative and Houston County. Blue Cross and Blue Shield of Minnesota (BCBSM), under contract with the Southeast Service Cooperative, is the Claims Administrator. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Active employees who retire from the County when eligible to receive a retirement benefit from PERA (or similar plan) and do not participate in any other health benefits program providing similar coverage will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the County's health benefits program. Retirees are required to pay 100 percent of the total group rate. Since the premium is a blended rate determined on the entire active and retiree population, the retirees, whose costs are statistically higher than the group average, are receiving an implicit rate "subsidy." As of January 1, 2009, there were four retirees receiving health benefits from the County's health plan.

3. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligations

The County's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for 2009, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

ARC	$ 55,139
Interest on net OPEB obligations	1,623
Adjustment to ARC	(2,165)
Annual OPEB cost	$ 54,597
Contribution during the year	(24,075)
Increase in net OPEB obligation	$ 30,522
Net OPEB - Beginning of Year	36,057
Net OPEB - End of Year	$ 66,579

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended December 31, 2009, were as follows:

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

3. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Funding Status

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

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

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

Actuarial Methods and Assumptions

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

In the January 1, 2008, actuarial valuation, the Projected Unit Credit Actuarial Method was used. The actuarial assumptions included a 4.5 percent discount rate (net of expenses), including an inflation assumption of 2.5 percent and an annual health care cost rate of 9.0 percent initially, reduced incrementally to an ultimate rate of 5.0 percent after ten years. The initial unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30-year period beginning in 2008.

4. Summary of Significant Contingencies and Other Items

A. Construction Commitments

The government has active construction projects as of December 31, 2009. The projects include the following (amounts in thousands):

	Total Contract	Spent-to-Date	Remaining Commitment	Funding
Governmental Activities				
Jail construction	$ 2,387	$ 629	$ 2,118	Bonds repaid with tax levy

B. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT), formerly the Minnesota Counties Insurance Trust. 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 $430,000 and $450,000 per claim in 2009 and 2010, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

4. Summary of Significant Contingencies and Other Items

B. Risk Management (Continued)

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.

C. Contingent Liabilities

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer the Agricultural Best Management Loan Program to individuals to implement projects that prevent or mitigate nonpoint source water pollution. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2009.

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

D. Jointly-Governed Organizations

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

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

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

4. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

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

The Southeast Minnesota Community Action Council (SEMCAC) provides various social services emergency assistance services to several counties. It also provides housing and redevelopment for Houston County through Bluff Country. During the year, Houston County paid $39,414 to SEMCAC.

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

The Southeastern Minnesota Library provides regional library services to counties and cities in southeastern Minnesota. During the year, Houston County paid $109,592 to the Library.

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

The Southeast Minnesota Regional Radio Board provides for the regional administration of enhancements to the Statewide Public Safety Radio and Communications System (ARMER). During 2009, Houston County paid $500 to the Board.

E. Joint Venture

Family Services Collaborative

The Houston County Family Services Collaborative was established in 1995 under the authority of Minn. Stat. §§ 124D.23 and 471.59. 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.

4. Summary of Significant Contingencies and Other Items

E. Joint Venture

Family Services Collaborative (Continued)

Control of the Collaborative is vested in a Board of Directors. Houston County appoints two members to this Board. Houston County acts as fiscal agent for the Collaborative. The Collaborative is financed by state grants and appropriations from participating members. During 2009, 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

F. Subsequent Event

On May 5, 2010, Houston County commenced construction of a new Justice Center. In 2010, the County will be bonding for approximately $7,300,000 to cover the remaining balance of the construction costs that have yet to be bonded for.

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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, 2009

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 5,562,909	$ 5,216,883	$ 5,163,100	$ (53,783)
Licenses and permits	51,720	51,720	46,230	(5,490)
Intergovernmental	1,864,452	2,261,372	2,676,644	415,272
Charges for services	2,146,529	2,146,529	2,077,364	(69,165)
Fines and forfeits	21,000	21,000	17,926	(3,074)
Gifts and contributions	5,000	5,000	2,222	(2,778)
Investment earnings	104,800	104,800	226,313	121,513
Miscellaneous	347,640	347,640	247,271	(100,369)
Total Revenues	**$ 10,104,050**	**$ 10,154,944**	**$ 10,457,070**	**$ 302,126**
Expenditures				
Current				
General government				
Commissioners	$ 336,380	$ 283,545	$ 224,763	$ 58,782
Courts	58,800	63,800	39,792	24,008
County auditor	202,832	196,692	173,447	23,245
Motor vehicle/licence bureau	95,595	95,595	94,230	1,365
County treasurer	148,936	147,036	142,498	4,538
County assessor	365,289	363,289	351,168	12,121
Elections	44,992	44,992	45,780	(788)
Finance director	102,000	100,000	93,491	6,509
Data processing	519,243	506,899	455,283	51,616
Personnel	168,296	168,296	159,263	9,033
Attorney	353,668	353,668	344,206	9,462
Law library	33,000	33,000	31,538	1,462
Recorder	217,502	229,246	261,232	(31,986)
Surveyor	207,466	194,116	212,049	(17,933)
Planning and zoning	235,039	236,039	183,850	52,189
Buildings and plant	427,187	427,187	788,835	(361,648)
Veterans service officer	106,344	102,344	106,409	(4,065)
Other general government	582,044	573,005	317,977	255,028
Total general government	**$ 4,204,613**	**$ 4,118,749**	**$ 4,025,811**	**$ 92,938**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 1,358,431	$ 1,404,331	$ 1,396,370	$ 7,961
Boat and water safety	13,138	13,138	8,462	4,676
Coroner	47,848	47,848	46,417	1,431
E-911 system	137,979	135,979	140,675	(4,696)
County jail	1,020,301	990,001	1,005,321	(15,320)
Community corrections	203,587	203,237	182,710	20,527
Civil defense	74,440	74,440	186,752	(112,312)
Total public safety	**$ 2,855,724**	**$ 2,868,974**	**$ 2,966,707**	**$ (97,733)**
Transportation				
Highways and streets	$ -	$ -	$ 115,642	$ (115,642)
Airport	184,325	184,325	55,445	128,880
Total transportation	**$ 184,325**	**$ 184,325**	**$ 171,087**	**$ 13,238**
Sanitation				
Solid waste	$ 472,758	$ 472,758	$ 475,591	$ (2,833)
Recycling	417,585	417,585	306,482	111,103
Total sanitation	**$ 890,343**	**$ 890,343**	**$ 782,073**	**$ 108,270**
Health				
Nursing services	$ 1,546,361	$ 1,546,361	$ 1,539,484	$ 6,877
Transportation	590	590	14,129	(13,539)
Health center (waivered services)	-	-	2,000	(2,000)
Total health	**$ 1,546,951**	**$ 1,546,951**	**$ 1,555,613**	**$ (8,662)**
Culture and recreation				
Historical society	$ 42,200	$ 36,700	$ 36,700	$ -
Parks	36,663	35,000	51,103	(16,103)
County/regional library	109,593	109,593	109,593	-
Other culture and recreation	123,000	123,000	137,467	(14,467)
Total culture and recreation	**$ 311,456**	**$ 304,293**	**$ 334,863**	**$ (30,570)**

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Conservation of natural resources				
County extension	$ 190,516	$ 152,106	$ 162,645	$ (10,539)
Soil and water conservation	157,576	157,576	157,576	-
Agriculture society/County fair	18,000	18,000	38,000	(20,000)
Water planning	23,251	23,251	20,687	2,564
Total conservation of natural resources	**$ 389,343**	**$ 350,933**	**$ 378,908**	**$ (27,975)**
Economic development				
Community development	$ 40,984	$ 40,984	$ 133,556	$ (92,572)
Other economic development	1,311	1,311	5,444	(4,133)
Total economic development	**$ 42,295**	**$ 42,295**	**$ 139,000**	**$ (96,705)**
Debt service				
Bond issuance costs	**$ -**	**$ -**	**$ 19,160**	**$ (19,160)**
Total Expenditures	**$ 10,425,050**	**$ 10,306,863**	**$ 10,373,222**	**$ (66,359)**
Excess of Revenues Over (Under) Expenditures	**$ (321,000)**	**$ (151,919)**	**$ 83,848**	**$ 235,767**
Other Financing Sources (Uses)				
Transfers in	$ -	$ 88,455	$ -	$ (88,455)
Proceeds from the sale of bonds	321,000	321,000	440,000	119,000
Premium on bonds/notes issued	-	-	5,510	5,510
Discount on bonds/notes issued	-	-	(9,000)	(9,000)
Proceeds from sale of capital notes	-	-	334,400	334,400
Proceeds from sale of capital assets	-	-	2,498	2,498
Total Other Financing Sources (Uses)	**$ 321,000**	**$ 409,455**	**$ 773,408**	**$ 363,953**
Change in Fund Balance	**$ -**	**$ 257,536**	**$ 857,256**	**$ 599,720**
Fund Balance - January 1	**4,890,063**	**4,890,063**	**4,890,063**	**-**
Fund Balance - December 31	**$ 4,890,063**	**$ 5,147,599**	**$ 5,747,319**	**$ 599,720**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

Schedule 2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,995,403	$ 1,661,725	$ 1,663,180	$ 1,455
Licenses and permits	1,000	1,000	770	(230)
Intergovernmental	6,057,224	6,377,353	6,005,524	(371,829)
Charges for services	221,100	236,100	333,119	97,019
Investment earnings	75,500	75,500	81,601	6,101
Miscellaneous	5,500	5,500	5,237	(263)
Non-revenue receipts	30,000	30,000	-	(30,000)
Total Revenues	**$ 8,385,727**	**$ 8,387,178**	**$ 8,089,431**	**$ (297,747)**
Expenditures				
Current				
Transportation				
Administration	$ 238,099	$ 238,099	$ 226,675	$ 11,424
Maintenance	2,986,513	2,851,513	3,105,854	(254,341)
Construction	4,517,843	4,517,843	2,425,138	2,092,705
Equipment maintenance and shop	1,053,872	1,025,231	939,737	85,494
Total Expenditures	**$ 8,796,327**	**$ 8,632,686**	**$ 6,697,404**	**$ 1,935,282**
Excess of Revenues Over (Under) Expenditures	**$ (410,600)**	**$ (245,508)**	**$ 1,392,027**	**$ 1,637,535**
Other Financing Sources (Uses)				
Proceeds from sale of bonds	$ 395,600	$ 395,600	$ -	$ (395,600)
Proceeds from sale of capital notes	-	-	395,600	395,600
Proceeds from sale of capital assets	15,000	15,000	32,550	17,550
Total Other Financing Sources (Uses)	**$ 410,600**	**$ 410,600**	**$ 428,150**	**$ 17,550**
Change in Fund Balance	**$ -**	**$ 165,092**	**$ 1,820,177**	**$ 1,655,085**
Fund Balance - January 1	**(260,026)**	**(260,026)**	**(260,026)**	**-**
Increase (decrease) in reserved for inventories	**-**	**-**	**116,103**	**116,103**
Fund Balance - December 31	**$ (260,026)**	**$ (94,934)**	**$ 1,676,254**	**$ 1,771,188**

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

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,260,236	$ 935,628	$ 929,745	$ (5,883)
Intergovernmental	3,143,131	3,198,388	3,201,601	3,213
Charges for services	6,660	6,660	84,166	77,506
Interest on investments	47,000	47,000	10,069	(36,931)
Miscellaneous	-	-	35,798	35,798
Total Revenues	**$ 4,457,027**	**$ 4,187,676**	**$ 4,261,379**	**$ 73,703**
Expenditures				
Current				
Human services				
Income maintenance	$ 1,055,597	$ 1,005,582	$ 926,735	$ 78,847
Social services	3,401,430	3,099,517	3,372,757	(273,240)
Total Expenditures	**$ 4,457,027**	**$ 4,105,099**	**$ 4,299,492**	**$ (194,393)**
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ 82,577**	**$ (38,113)**	**$ (120,690)**
Fund Balance - January 1	**1,365,660**	**1,365,660**	**1,365,660**	**-**
Fund Balance - December 31	**$ 1,365,660**	**$ 1,448,237**	**$ 1,327,547**	**$ (120,690)**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

Schedule 4

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2009

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

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2009

1. Budgetary Information

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

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

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

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2009, expenditures exceeded appropriations in the General Fund by $66,359 and in the Social Services Special Revenue Fund by $194,393. These over-expenditures were funded by greater than anticipated revenues and prior year fund equity.

3. Other Postemployment Benefits

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

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SUPPLEMENTARY INFORMATION

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AGENCY FUNDS

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

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

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

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

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

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

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

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

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

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

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

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

Statement 1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Balance January 1	Additions	Deductions	Balance December 31
CROOKED CREEK WATERSHED				
Assets				
Cash and pooled investments	$ 677	$ 23,676	$ 23,458	$ 895
Liabilities				
Due to other governments	$ 677	$ 23,676	$ 23,458	$ 895
HEALTH				
Assets				
Cash and pooled investments	$ 42,670	$ 150,246	$ 158,714	$ 34,202
Liabilities				
Accounts payable	$ 42,670	$ 150,246	$ 158,714	$ 34,202
REVOLVING				
Assets				
Cash and pooled investments	$ 21,500	$ 3,347,507	$ 3,342,140	$ 26,867
Liabilities				
Due to other governments	$ 21,500	$ 3,347,507	$ 3,342,140	$ 26,867

HOUSTON COUNTY
CALEDONIA, MINNESOTA

Statement 1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Balance January 1	Additions	Deductions	Balance December 31
SOIL AND WATER CONSERVATION				
Assets				
Cash and pooled investments	$ 1,235,382	$ 1,901,248	$ 1,862,447	$ 1,274,183
Liabilities				
Due to other governments	$ 1,235,382	$ 1,901,248	$ 1,862,447	$ 1,274,183
SCHOOL DISTRICTS				
Assets				
Cash and pooled investments	$ 151,718	$ 5,569,627	$ 5,550,480	$ 170,865
Liabilities				
Due to other governments	$ 151,718	$ 5,569,627	$ 5,550,480	$ 170,865
FAMILY COLLABORATIVE				
Assets				
Cash and pooled investments	$ 168,341	$ 124,293	$ 163,516	$ 129,118
Liabilities				
Due to other governments	$ 168,341	$ 124,293	$ 163,516	$ 129,118

HOUSTON COUNTY
CALEDONIA, MINNESOTA

Statement 1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	**$ 109,013**	**$ 22,657,279**	**$ 22,709,455**	**$ 56,837**
Liabilities				
Accounts payable	$ 109,013	$ 2,738,288	$ 2,790,464	$ 56,837
Due to other funds	-	7,984,242	7,984,242	-
Due to other governments	-	11,934,749	11,934,749	-
Total Liabilities	**$ 109,013**	**$ 22,657,279**	**$ 22,709,455**	**$ 56,837**
TOWNS AND CITIES				
Assets				
Cash and pooled investments	**$ 134,008**	**$ 5,994,982**	**$ 5,993,965**	**$ 135,025**
Liabilities				
Due to other governments	**$ 134,008**	**$ 5,994,982**	**$ 5,993,965**	**$ 135,025**
HISTORICAL BLUFF COUNTRY				
Assets				
Cash and pooled investments	**$ 162**	**$ 25,948**	**$ 25,948**	**$ 162**
Liabilities				
Accounts payable	**$ 162**	**$ 25,948**	**$ 25,948**	**$ 162**

HOUSTON COUNTY
CALEDONIA, MINNESOTA

Statement 1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Balance January 1	Additions	Deductions	Balance December 31
VICTIM SERVICES				
Assets				
Cash and pooled investments	**$ 18,190**	**$ 44,463**	**$ 45,069**	**$ 17,584**
Liabilities				
Due to other governments	**$ 18,190**	**$ 44,463**	**$ 45,069**	**$ 17,584**
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	**$ 1,881,661**	**$ 39,839,269**	**$ 39,875,192**	**$ 1,845,738**
Liabilities				
Accounts payable	$ 151,845	$ 2,914,482	$ 2,975,126	$ 91,201
Due to other funds	-	7,984,242	7,984,242	-
Due to other governments	1,729,816	28,940,545	28,915,824	1,754,537
Total Liabilities	**$ 1,881,661**	**$ 39,839,269**	**$ 39,875,192**	**$ 1,845,738**

OTHER SCHEDULE

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

Schedule 5

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

Shared Revenue		
State		
Highway users tax	$	2,407,791
PERA rate reimbursement		23,682
Disparity reduction aid		132,528
Police aid		84,390
County program aid		1,012,359
Market value credit		906,212
Enhanced 911		95,705
Total shared revenue	**$**	**4,662,667**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**621,671**
Payments		
Local		
Payments in lieu of taxes	**$**	**295,146**
Grants		
State		
Minnesota Department/Board of		
Public Safety	$	442,408
Health		94,003
Employment and Economic Development		176,769
Natural Resources		195,052
Trial Courts		1,200
Human Services		1,208,826
Veterans Affairs		2,800
Corrections		55,549
Transportation		1,370,965
Water and Soil Resources		98,182
Pollution Control Agency		82,975
Peace Officer Standards and Training Board		5,153
Total state	**$**	**3,733,882**

HOUSTON COUNTY
CALEDONIA, MINNESOTA

Schedule 5
(Continued)

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

Grants (Continued)		
Federal		
Department of		
Agriculture	$	158,656
Justice		2,590
Transportation		175,446
Health and Human Services		1,170,334
Homeland Security		1,094,589
Environmental Protection Agency		1,745
Total federal	**$**	**2,603,360**
Total state and federal grants	**$**	**6,337,242**
Total Intergovernmental Revenue	**$**	**11,916,726**

Management and Compliance Section

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

Schedule 6

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009

I. SUMMARY OF AUDITOR'S RESULTS

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

B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Houston County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*" One of the significant deficiencies is a material weakness.

C. No instances of noncompliance material to the financial statements of Houston County were disclosed during the audit.

D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."

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

F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

G. The major programs are:

Foster Care Title IV-E Cluster	
Foster Care Title IV-E	CFDA #93.658
Foster Care Title IV-E - ARRA	CFDA #93.658
Medical Assistance Program	CFDA #93.778
Disaster Grants - 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*

<u>INTERNAL CONTROL</u>

<u>PREVIOUSLY REPORTED ITEMS NOT RESOLVED</u>

06-1 <u>Audit Adjustments</u>

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards No. 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

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

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

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

Houston County will continue to develop and update policies/practices to ensure accurate accounting of funds. The County has adopted Articles 18-21 of the Accounting Manual which are policies addressing grants, electronic funds transfers, petty cash, and journal entries. The County has also amended Article 13 of the Accounting Manual to address budget amendments.

06-2 Segregation of Duties and Investment Oversight

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

- The County Treasurer buys, sells, and records interest earned for all investments for the County. There is no independent tracking of these transactions by the Finance Department. A record of these transactions should be maintained by the Finance Department to compare with the Treasurer's investment balances as part of the monthly balancing procedure.

- No callback procedures are in place with the banking institution for electronic funds transfers (EFT) made by the County Treasurer. The EFT policy should be updated to include callback procedures from the banking institution to management level personnel at the County to verify the authenticity and the validity of the EFT request.

- The County Treasurer and the Finance Department do not reconcile the monthly cash and pooled investment balance to the County's general ledger. In order for the general ledger to be reliable, the monthly treasury cash and pooled investments must be reconciled to the general ledger.

- The County has a separate savings account for the Economic Development Authority (EDA). The EDA's revenues, expenditures, cash and pooled investments, and accrued interest are reported in the County's General Fund as restricted. The EDA's cash receipts and disbursements for claims were made from the County's general checking account rather than from the EDA's savings account.

- No independent review of the monthly bank account reconciliations is done. Independent review of the reconciliations should be conducted to ensure that reconciling items in the reconciliation are justified and the bank balance is reconciled to the book balance.

- The County Treasurer writes manual checks to transfer cash between County bank accounts. The County Treasurer should not have access to manual checks or to write manual checks since the County Treasurer has custody of the assets. Transfers between bank accounts should be done by electronic wire transfers with a callback procedure in place.

We recommend the County improve controls in the Treasury Department by having an independent tracking of investment transactions, initiating callback procedures for EFTs made by the County Treasurer, having an independent review of monthly bank account reconciliations, and reconciling the monthly cash and pooled investment balance to the County's general ledger. All bank accounts should be used for their intended purpose, and all transactions should be recorded in the applicable bank account.

Client's Response:

The County will develop and implement policies and procedures to address these findings.

08-1 Access to Accounting System

There should be adequate segregation of duties among those who are administering information technology security and those processing accounting transactions. We noted in our review of user access to the accounting system that Data Processing Department personnel have user access to the accounting system. User access to the accounting system should be limited to those whose job responsibilities are to process accounting transactions. The current condition provides the opportunity for Data Processing Department personnel to make unauthorized entries to the accounting data files.

We recommend that user access to the accounting system be limited to those whose responsibilities are to process accounting transactions.

Client's Response:

The County will review personnel responsibilities and adjust their system accesses or implement compensating controls where needed.

08-2 Departmental Internal Accounting Controls

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

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

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

Client's Response:

The County will continue to segregate duties whenever possible. In the event that staffing levels do not allow for proper segregation of duties, compensating controls shall be implemented to ensure compliance with internal controls.

ITEMS ARISING THIS YEAR

09-1 Internal Control Procedures - Accounting Manual

The written internal control procedures for general disbursements, receipting, budgeting, recording of capital assets, and the preparation of the annual financial statements do not disclose all of the internal control processes. All major internal control procedures relating to disbursing, receipting, budgeting, recording of capital assets, and the preparation of the financial statements should be documented so that employees know their responsibilities and management is aware of the controls they have placed in operation and how these controls are monitored on an ongoing basis.

We recommend that the written internal control procedures for disbursements, receipting, budgeting, recording of capital assets, and the preparation of the financial statements be updated to reflect all major internal controls.

Client's Response:

The County will review its current policies and update them to reflect all internal controls.

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

While reviewing ACH internal control processes, we found that the same employee can set up employee ACH bank routing information in the payroll master file and send the ACH electronic payment file to the bank. In order to reduce the possibility of errors or irregularities, good internal controls dictate that these duties be segregated so that no one employee has control over the entire transaction cycle.

We recommend that management segregate the duties surrounding the ACH payment processes so that the duties are not concentrated to one employee. If this is not feasible, management should implement compensating control procedures to ensure transactions are processed in accordance with management directives.

Client's Response:

The County has implemented new internal controls over the ACH payment process that require a secondary review, by someone independent of the payment process, and approval of all ACH payments before the bank will execute payment.

09-3 Data Processing Policies and Procedures

The County does not have any written policies and procedures in place to address the following for its information technology systems: information security, business continuity planning, operations development, termination of employees, backup procedures, risk assessments of the systems, and email encryption methods. All major policies and procedures related to the information technology systems should be documented so that employees are aware of the County's policies and procedures relating to security, business continuity planning, operations development, termination of employees, and backup procedures.

We recommend the County Information Systems Department establish the policies and procedures relating to information technology systems.

Client's Response:

The County Information Systems department is in the process of developing policies that will address these findings.

PREVIOUSLY REPORTED ITEMS RESOLVED

Segregation of Duties Relating to Payroll (07-1)
Review of the Paymate payroll system revealed that any individual authorized to use the Paymate system can access all aspects of the system.

Resolution
The County uses the Audit Log which records all changes made to the payroll system and is reviewed by the Human Resources Director.

Disbursement Internal Controls (07-2)
While reviewing County disbursements, we noted that some claims did not have supporting documentation or department head approval.

Resolution
The County has improved in providing documentation and obtaining approval.

Disbursements Segregation of Duties and New Vendors (07-3)
New vendors could be added by the same employee who records the disbursements and prints the checks. New vendors added to the vendor masterfile were not monitored or reviewed by an employee independent of the disbursement process for validity of the vendor.

Resolution
New vendors are now being reviewed by a person independent of the disbursement process.

Annual Inventory of Capital Assets (07-4)
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.

Resolution
The County is now performing an annual inventory of capital assets.

Investment Policy (07-5)

The County had not updated its investment policy to address the risks identified in Governmental Accounting Standards Board (GASB) Statement 40.

Resolution

The County has an updated investments policy to address the risks identified in GASB Statement 40.

Disbursement Procedures (08-3)

Written internal control procedures for general disbursements did not disclose how the following processes are handled: monitoring or reviewing of information included in the general ledger system by someone other than those who input the information, how the information is approved by those in charge of governance, and how voided warrants are handled.

Resolution

This finding is combined with finding 09-1, Internal Control Procedures - Accounting Manual.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

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

While testing internal accounting controls over the Child Care Program, we noted vendor claims had not been signed by the appropriate parties.

Resolution

Nothing was noted for the current year. The State of Minnesota has taken over payments to vendors.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

08-4 Delegation to Pay Claims

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

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

Client's Response:

The County will implement a policy that provides for delegation of authority to County officials to pay claims.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

01-2 Disaster Recovery

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

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

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

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

Client's Response:

The County is still in the process of developing a formal Disaster Recovery plan.

C. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

GASB recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

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

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).

- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.

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

- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for the County for the year ending December 31, 2011.

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

Board of County Commissioners
Houston County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houston County as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 16, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for 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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because Houston County did not have any.

The results of our tests indicate that, for the items tested, Houston County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 08-4.

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

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

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

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

September 16, 2010

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

Board of County Commissioners
Houston County

Compliance

We have audited the compliance of Houston County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. 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, 2009.

Internal Control Over Compliance

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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 16, 2010. Our audit was performed for the purpose of forming opinions on Houston County's financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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

September 16, 2010

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

Schedule 7

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number		Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	$	71,506
Passed Through Minnesota Department of Human Services			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster			
State Administrative Matching Grants for SNAP	10.561		17,913
State Administrative Matching Grants for SNAP - ARRA	10.561		69,237
Total U.S. Department of Agriculture		**$**	**158,656**
U.S. Department of Justice			
Passed Through Minnesota Department of Public Safety			
Public Safety Partnership and Community Policing Grants	16.710	**$**	**2,590**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	$	157,984
Passed Through Minnesota Department of Public Safety			
State and Community Highway Safety	20.600		17,462
Total U.S. Department of Transportation		**$**	**175,446**
U.S. Environmental Protection Agency			
Passed Through Minnesota Department of Health			
State Indoor Radon Grants	66.032	**$**	**1,745**
U.S. Department of Health and Human Services			
Passed Through the National Association of County and City Officials			
Medical Reserve Corps Small Grant Program	93.008	$	10,000
Passed Through Minnesota Department of Health			
Public Health Emergency Preparedness	93.069		20,879
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		14,705
Temporary Assistance for Needy Families (TANF)	93.558		30,892
Maternal and Child Health Services Block Grant to the States	93.994		23,249

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

Schedule 7
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	5,626
Temporary Assistance for Needy Families (TANF)	93.558	120,036
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	232,121
Child Support Enforcement - ARRA	93.563	37,809
Refugee and Entrant Assistance - State-Administered Programs	93.566	215
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	13,865
Foster Care Title IV-E Cluster		
Foster Care Title IV-E	93.658	188,184
Foster Care Title IV-E - ARRA	93.658	15,049
Social Services Block Grant	93.667	111,219
Chafee Foster Care Independence Program	93.674	8,000
Children's Health Insurance Program	93.767	52
Medical Assistance Program	93.778	346,326
Block Grants for Community Mental Health Services	93.958	516
Total U.S. Department of Health and Human Services		**$ 1,178,743**
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	$ 4,654
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	650,666
Hazard Mitigation Grant	97.039	15,293
Emergency Management Performance Grants	97.042	16,236
Total U.S. Department of Homeland Security		**$ 686,849**
Total Federal Awards		**$ 2,204,029**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Houston County under programs of the federal government for the year ended December 31, 2009. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Houston County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Houston County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$ 2,603,360
Deferred in 2008, recognized as revenue in 2009	
Highway Planning and Construction	(186,139)
Medical Assistance Program	(3,591)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	(1,389,642)
Grants received more than 60 days after year-end, deferred in 2009	
Highway Planning and Construction	186,139
Child Support Enforcement	12,000
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	981,902
Expenditures Per Schedule of Expenditures of Federal Awards	$ 2,204,029

5. Subrecipients

   During 2009, the County did not pass any federal money to subrecipients.

6. American Recovery and Reinvestment Act

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