

# STATE OF MINNESOTA

## Office of the State Auditor



**Julie Blaha**  
**State Auditor**

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

**YEAR ENDED DECEMBER 31, 2018**

## **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 100 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 600 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, 2018**



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

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2018

			<u>Term Expires</u>
<b>Elected</b>			
Commissioners			
Board Member	Jack Miller	District 1	January 2021
Board Member	Justin Zmyewski	District 2	January 2019
Board Member	Vacant	District 3	January 2021
Vice Chair	Teresa Walter <sup>1</sup>	District 4	January 2019
Chair	Fred Arnold	District 5	January 2021
Attorney	Samuel Jandt		January 2019
County Recorder	Beverly Bauer		January 2019
County Sheriff	Mark Inglett		January 2019
Treasurer	Donna Trehus		January 2019
<b>Appointed</b>			
Administrator	Jeffrey Babinski		Indefinite
Assessor	Cynthia Cresswell-Hatleli		December 2020
Auditor – Interim	Michelle Quinn		December 2018
County Engineer	Brian Pogodzinski		April 2021
Coroner	Mayo Medical Examiner		Indefinite
Court Administrator	Darlene Larson		Indefinite
Finance Director	Carol Lapham		Indefinite
Public Health/Human Services Director	John Pugleasa		Indefinite
Veterans Service Officer	Robert Thoen		January 2020

<sup>1</sup>Chair 2019

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JULIE BLAHA  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Houston County  
Caledonia, Minnesota

#### Report on the Financial Statements

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, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***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, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter – Change in Accounting Principle***

As discussed in Note 1.E. to the financial statements, in 2018, the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Houston County's basic financial statements. The Supplementary Information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Supplementary Information is the

responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2019, 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 solely 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 effectiveness of Houston County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Houston County's internal control over financial reporting and compliance.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA), as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*/s/Julie Blaha*

JULIE BLAHA  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 17, 2019

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

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018  
(Unaudited)**

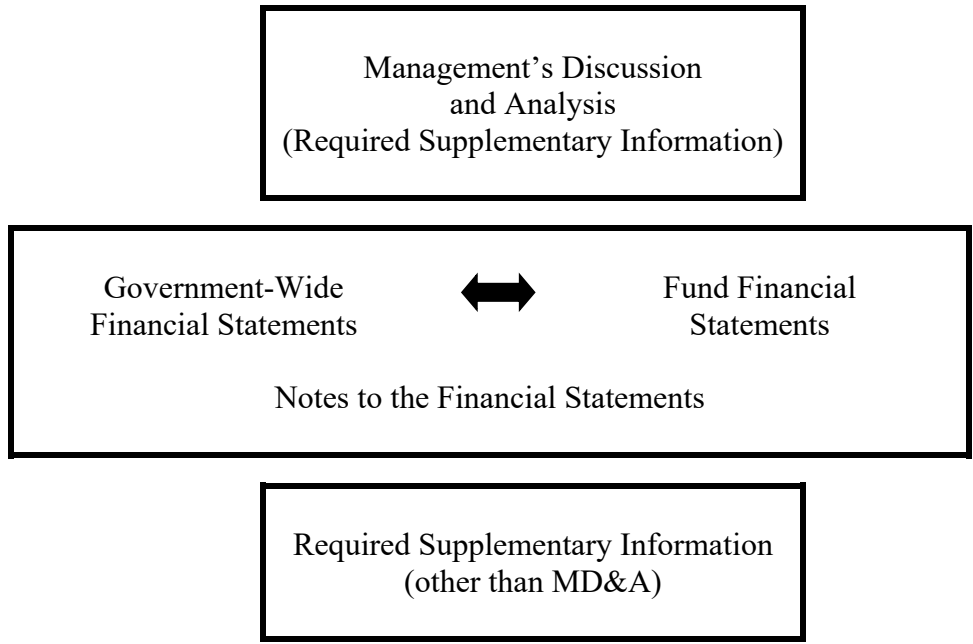
The Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2018. Since this information is designed to focus on current year activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net position is \$79,254,472, of which \$65,879,470 is in net investment in capital assets and \$5,457,915 is restricted to specific purposes.
- Houston County's net position increased by \$2,395,026 for the year ended December 31, 2018.
- The net cost of governmental activities for the current fiscal year was \$11,611,960. The net cost was funded by general revenues, including taxes and grants.
- Governmental funds' fund balances increased by \$700,265.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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



There are two government-wide financial statements. The Statement of Net Position 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 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as an agent for the benefit of those outside of the government.

**Government-Wide Financial Statements—The Statement of Net Position and the Statement of Activities**

Our analysis of the County as a whole is shown on Exhibits 1 and 2. The Statement of Net Position 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, deferred outflows of resources, liabilities, and deferred inflows of resources using the full 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 position and changes in them. You can think of the County's net position—the difference between assets and deferred outflows of resources from liabilities and deferred inflows of resources—as one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's net position 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 position changed during the year. All changes in net position 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 17. 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 Position and the Statement of Activities) and governmental funds in a reconciliation 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 Position. 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 position increased \$2,395,026 from \$76,859,446, as restated, to \$79,254,472.

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

	<u>2018</u>	<u>2017</u>
Assets		
Current and other assets	\$ 24.6	\$ 23.8
Capital assets	<u>79.9</u>	<u>79.0</u>
Total Assets	<u>\$ 104.5</u>	<u>\$ 102.8</u>
Deferred Outflows of Resources		
Deferred pension outflows	\$ 2.9	\$ 4.5
Deferred charge on refunding	<u>0.7</u>	<u>0.8</u>
Total Deferred Outflows of Resources	<u>\$ 3.6</u>	<u>\$ 5.3</u>
Liabilities		
Long-term liabilities	\$ 22.3	\$ 25.9
Other liabilities	<u>1.5</u>	<u>0.9</u>
Total Liabilities	<u>\$ 23.8</u>	<u>\$ 26.8</u>
Deferred Inflows of Resources		
Prepaid property taxes	\$ -	\$ 0.2
Deferred pension inflows	<u>5.0</u>	<u>4.2</u>
Total Deferred Inflows of Resources	<u>\$ 5.0</u>	<u>\$ 4.4</u>
Net Position		
Net investment in capital assets	\$ 65.9	\$ 64.3
Restricted	5.5	6.1
Unrestricted	<u>7.9</u>	<u>6.5</u>
Total Net Position	<u><u>\$ 79.3</u></u>	<u><u>\$ 76.9</u></u>

Net position of the County's governmental activities increased by 3.1 percent (\$79,254,472 compared to \$76,859,446, as restated).

**Table 2**  
**Change in Net Position**  
**(in Millions)**

	<u>2018</u>	<u>2017</u>
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 3.0	\$ 3.0
Operating grants and contributions	10.6	10.2
Capital grants and contributions	-	0.2
General revenues		
Property taxes	11.6	11.8
Other taxes and payments in lieu of taxes	0.6	0.6
Grants and contributions	1.5	1.4
Other general revenues	0.4	0.4
Total Revenues	<u>\$ 27.7</u>	<u>\$ 27.6</u>
Expenses		
General government	\$ 4.8	\$ 4.6
Public safety	4.3	5.0
Transportation	6.8	7.1
Human services	5.7	5.3
Health	1.1	1.4
Sanitation	1.1	1.0
Culture and recreation	0.4	0.4
Conservation of natural resources	0.4	0.3
Economic development	0.3	0.4
Interest	0.4	0.5
Total Expenses	<u>\$ 25.3</u>	<u>\$ 26.0</u>
Increase (Decrease) in Net Position	\$ 2.4	\$ 1.6
Net Position – January 1, as restated (1)	<u>76.9</u>	<u>75.3</u>
Net Position – December 31	<u>\$ 79.3</u>	<u>\$ 76.9</u>

(1) Restated for change in accounting principle; see Note 1.E.

### Governmental Activities

The cost of all governmental activities this year was \$25,291,210. However, as shown in the Statement of Activities, the amount that the taxpayers ultimately financed for these activities through County property taxes was only \$11,554,426, because some of the cost was paid by

those who directly benefited from the programs (\$2,996,611) or by other governments and organizations that subsidized certain programs with grants and contributions (\$10,682,639). The County paid for the remaining “public benefit” portion of governmental activities with \$14,006,986 in general revenues, primarily property taxes and other revenues, such as interest and general entitlements, resulting in an increase to net position of \$2,395,026.

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 (Revenue) of Services	
	2018	2017	2018	2017
Transportation	\$ 6.8	\$ 7.1	\$ 0.8	\$ 1.1
Human services	5.7	5.3	1.6	1.6
General government	4.8	4.6	4.0	3.9
Public safety	4.3	5.0	3.5	4.3

## 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, unrestricted 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, 2018, Houston County’s governmental funds reported combined ending fund balances of \$19,568,995, an increase of \$700,265 in comparison with 2017. The County is reporting an unassigned fund balance of \$5,297,300 in 2018. The remainder of fund balance is nonspendable, restricted, committed, or assigned 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, 2018, unassigned fund balance was \$5,297,300, while total fund balance was \$6,488,275. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 43.8 percent of total General Fund expenditures, while total fund balance represents 53.7 percent of the same amount. While the 2018 General Fund final budget reflected a \$148,671 use of fund balance, the General Fund ended the year utilizing \$71,250 of fund balance. The General Fund December 31, 2018, fund balance of \$6,488,275 decreased from the 2017 balance of \$6,559,525.



The Road and Bridge Special Revenue Fund’s fund balance increased by \$483,707 to \$9,973,172, of which all is assigned. The Road and Bridge Department collected \$202,087 in wheelage tax revenue in 2018. The total amount restricted for wheelage tax is designated to fund the future County Road 249 paving project. In 2018, reimbursements in the amount of \$191,157 were received for the 2013 and 2016 federal disaster flood as well as the 2018 state disaster, which contributed to the fund balance increase.

The Social Services Special Revenue Fund’s fund balance increased by \$8,091 to \$1,643,762, all of which is assigned. The increase in fund balance is the result of a net source of funds from public health of \$57,901 combined with a net use of funds from human services of \$49,810.

**General Fund Budgetary Highlights**

Houston County revised its General Fund budget during 2018, increasing expected revenues by 1.7 percent and increasing appropriations by 2.2 percent, respectively. For the year ended December 31, 2018, expenditures were less than final budget by \$163,700.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2018, the County had \$79,943,319 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 \$948,352, or 1.2 percent, over last year. More detailed information about the County’s capital assets can be found in Note 2.A. of the financial statements.

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

	2018	2017
Land	\$ 3.2	\$ 3.2
Construction in progress	0.1	0.8
Buildings and improvements	17.3	17.7
Machinery, furniture, and equipment	3.4	3.3
Infrastructure	55.9	54.0
Totals	<u>\$ 79.9</u>	<u>\$ 79.0</u>

## Long-Term Debt

At the end of the current fiscal year, the County had total general obligation bonds outstanding in the amount of \$14,594,569, as shown in Table 5. More detailed information about the County's long-term liabilities is presented in Note 2.C. to the financial statements.

**Table 5**  
**Outstanding Debt at Year-End**  
**(in Millions)**

	<u>2018</u>	<u>2017</u>
G.O. bonds	<u>\$ 14.6</u>	<u>\$ 15.4</u>

Other obligations include loans payable, compensated absences, pension benefits, and other postemployment benefits.

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

The County's elected and appointed officials considered many factors when setting the fiscal year 2019 budget, tax rates, and fees that will be charged for the government-type activities.

- The unemployment rate in Houston County decreased, moving from 3.55 percent in 2017 to 2.87 percent in 2018 for the annual average. This is lower than the U.S. average of 3.9 percent and the Minnesota rate of 2.91 percent.
- County General Fund expenditures for 2019 are budgeted to decrease 7.5 percent from the 2018 level.
- Houston County's population decreased by 4.6 percent from 2008 (19,561) to 2018 (18,659), compared to an increase of 6.1 percent in Minnesota as a whole. Citizens age 65+ comprise 19.75 percent of the County's population.
- The proposed property tax levy has decreased 0.5 percent for 2019.
- During 2019, Houston County officials will continue discussing options for replacement of the County Highway facility. The County Board of Commissioners will also be considering the repurposing or demolition of the Historic Jail and the use of the insurance settlement following the 2014 damage to the unoccupied building that occurred when the sprinkler system malfunctioned. The County's organizational structure is transitioning with the hire of a County Administrator, the combining of the Auditor and Treasurer's Offices, and the integration of the Public Health and Human Services Departments aiming to streamline operations and increase efficiencies.

## **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, Carol Lapham, 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 POSITION  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2018**

**Assets**

Cash and pooled investments	\$	16,040,098
Petty cash and change funds		17,160
Investments		3,151,867
Taxes receivable		
Delinquent		158,551
Accounts receivable – net		190,697
Accrued interest receivable		14,393
Loans receivable		333,691
Due from other governments		4,132,317
Inventories		457,494
Prepaid items		6,069
Capital assets		
Non-depreciable		3,349,417
Depreciable – net of accumulated depreciation		76,593,902
		104,445,656
<b>Total Assets</b>	<b>\$</b>	<b>104,445,656</b>

**Deferred Outflows of Resources**

Deferred charge on refunding	\$	677,343
Deferred other postemployment benefits outflows		32,103
Deferred pension outflows		2,919,227
		3,628,673
<b>Total Deferred Outflows of Resources</b>	<b>\$</b>	<b>3,628,673</b>

**Liabilities**

Accounts payable	\$	547,172
Salaries payable		484,210
Contracts payable		151,516
Due to other governments		149,345
Accrued interest payable		174,511
Customer deposits		21,206
Long-term liabilities		
Due within one year		983,661
Due in more than one year		14,827,889
Other postemployment benefits liability		462,066
Net pension liability		6,030,492
		23,832,068
<b>Total Liabilities</b>	<b>\$</b>	<b>23,832,068</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

***EXHIBIT 1  
(Continued)***

**STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2018**

**Deferred Inflows of Resources**

Deferred pension inflows	<b>\$ 4,987,789</b>
--------------------------	---------------------

**Net Position**

Net investment in capital assets	\$ 65,879,470
Restricted for	
General government	229,397
Public safety	302,567
Debt service	1,463,786
Highways and streets	3,091,387
Economic development	370,778
Unrestricted	<u>7,917,087</u>
<b>Total Net Position</b>	<b><u>\$ 79,254,472</u></b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES  
DECEMBER 31, 2018**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenues and Change in Net Position</u>
		<u>Fees, Charges, Fines, and Other</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b><u>Functions/Programs</u></b>					
<b>Primary government</b>					
<b>Governmental activities</b>					
General government	\$ 4,786,751	\$ 394,153	\$ 359,496	\$ -	\$ (4,033,102)
Public safety	4,331,844	386,035	466,647	7,100	(3,472,062)
Transportation	6,752,336	214,856	5,650,242	47,663	(839,575)
Sanitation	1,046,224	580,433	113,953	-	(351,838)
Human services	5,714,350	891,988	3,213,506	-	(1,608,856)
Health	1,101,570	456,710	626,634	-	(18,226)
Culture and recreation	398,227	58,678	-	-	(339,549)
Conservation of natural resources	378,026	2,200	140,332	-	(235,494)
Economic development	336,665	11,558	55,639	1,427	(268,041)
Interest	445,217	-	-	-	(445,217)
<b>Total Governmental Activities</b>	<b>\$ 25,291,210</b>	<b>\$ 2,996,611</b>	<b>\$ 10,626,449</b>	<b>\$ 56,190</b>	<b>\$ (11,611,960)</b>
<b>General Revenues</b>					
Property taxes					\$ 11,554,426
Mortgage registry and deed tax					16,278
Wheelage tax					202,087
Payments in lieu of tax					353,494
Grants and contributions not restricted to specific programs					1,495,494
Unrestricted investment earnings					144,552
Miscellaneous					240,655
<b>Total general revenues</b>					<b>\$ 14,006,986</b>
<b>Change in net position</b>					<b>\$ 2,395,026</b>
<b>Net Position – Beginning, as restated (Note 1.E.)</b>					<b>76,859,446</b>
<b>Net Position – Ending</b>					<b>\$ 79,254,472</b>

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2018**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Fund Debt Service</u>	<u>Total</u>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 5,501,947	\$ 8,254,273	\$ 825,259	\$ 1,458,619	\$ 16,040,098
Petty cash and change funds	17,060	100	-	-	17,160
Investments	966,146	1,488,563	697,158	-	3,151,867
Taxes receivable					
Delinquent	94,739	28,630	17,054	18,128	158,551
Accounts receivable – net	15,150	487	175,060	-	190,697
Loans receivable	333,691	-	-	-	333,691
Accrued interest receivable	9,830	3,659	904	-	14,393
Due from other funds	5,781	-	-	-	5,781
Due from other governments	109,764	3,515,909	506,644	-	4,132,317
Prepaid expense	6,069	-	-	-	6,069
Inventories	-	457,494	-	-	457,494
<b>Total Assets</b>	<b><u>\$ 7,060,177</u></b>	<b><u>\$ 13,749,115</u></b>	<b><u>\$ 2,222,079</u></b>	<b><u>\$ 1,476,747</u></b>	<b><u>\$ 24,508,118</u></b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 78,354	\$ 203,807	\$ 265,011	\$ -	\$ 547,172
Salaries payable	260,671	72,144	151,395	-	484,210
Contracts payable	-	151,516	-	-	151,516
Due to other funds	-	-	5,781	-	5,781
Due to other governments	102,189	26,047	21,109	-	149,345
Customer deposits	21,206	-	-	-	21,206
<b>Total Liabilities</b>	<b><u>\$ 462,420</u></b>	<b><u>\$ 453,514</u></b>	<b><u>\$ 443,296</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,359,230</u></b>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue	<b><u>\$ 109,482</u></b>	<b><u>\$ 3,322,429</u></b>	<b><u>\$ 135,021</u></b>	<b><u>\$ 12,961</u></b>	<b><u>\$ 3,579,893</u></b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2018**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Fund Debt Service</u>	<u>Total</u>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>					
<b>(Continued)</b>					
<b>Fund Balances</b>					
Nonspendable					
Prepaid items	\$ 6,069	\$ -	\$ -	\$ -	\$ 6,069
Long-term loans receivable	282,164	-	-	-	282,164
Inventories	-	457,494	-	-	457,494
Restricted for					
Debt service	-	-	-	1,463,786	1,463,786
Recorder's technology equipment	124,602	-	-	-	124,602
Recorder's compliance	95,401	-	-	-	95,401
E-911	139,604	-	-	-	139,604
Economic development loans	370,778	-	-	-	370,778
Conceal and carry	158,348	-	-	-	158,348
Sheriff's DUI forfeiture	4,615	-	-	-	4,615
Attorney forfeited property	9,394	-	-	-	9,394
Assigned					
Road and bridge	-	9,515,678	-	-	9,515,678
Human services	-	-	1,643,762	-	1,643,762
Unassigned	5,297,300	-	-	-	5,297,300
<b>Total Fund Balances</b>	<b>\$ 6,488,275</b>	<b>\$ 9,973,172</b>	<b>\$ 1,643,762</b>	<b>\$ 1,463,786</b>	<b>\$ 19,568,995</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 7,060,177</b>	<b>\$ 13,749,115</b>	<b>\$ 2,222,079</b>	<b>\$ 1,476,747</b>	<b>\$ 24,508,118</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION—GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2018**

<b>Fund balances – total governmental funds (Exhibit 3)</b>		<b>\$</b>	<b>19,568,995</b>
Amounts reported for governmental activities in the statement of net position 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.			79,943,319
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			3,579,893
Deferred outflows of resources resulting from pension and other postemployment benefits liabilities are not available resources and, therefore, are not reported in the governmental funds.			2,951,330
Deferred outflows of resources resulting from debt refundings are not reported in the governmental funds.			677,343
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	\$	(95,689)	
Bonds payable		(14,100,000)	
Bond discount		8,085	
Bond premium		(502,654)	
Accrued interest payable		(174,511)	
Net pension liability		(6,030,492)	
Other postemployment benefits liability		(462,066)	
Compensated absences		(1,121,292)	(22,478,619)
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.			<u>(4,987,789)</u>
<b>Net Position of Governmental Activities (Exhibit 1)</b>			<b><u>\$ 79,254,472</u></b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT 5**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2018**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Fund Debt Service</u>	<u>Total</u>
<b>Revenues</b>					
Taxes	\$ 6,972,267	\$ 2,240,824	\$ 1,227,422	\$ 1,330,175	\$ 11,770,688
Licenses and permits	73,115	4,340	-	-	77,455
Intergovernmental	2,845,029	6,303,225	3,593,053	56,396	12,797,703
Charges for services	1,756,084	204,031	386,344	-	2,346,459
Fines and forfeits	8,686	-	-	-	8,686
Gifts and contributions	3,100	-	-	-	3,100
Investment earnings	112,716	21,058	10,778	-	144,552
Miscellaneous	246,957	10,977	554,049	2,512	814,495
<b>Total Revenues</b>	<b>\$ 12,017,954</b>	<b>\$ 8,784,455</b>	<b>\$ 5,771,646</b>	<b>\$ 1,389,083</b>	<b>\$ 27,963,138</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 4,767,771	\$ -	\$ -	\$ -	\$ 4,767,771
Public safety	4,154,867	-	-	-	4,154,867
Transportation	-	7,910,995	-	-	7,910,995
Sanitation	1,034,768	-	-	-	1,034,768
Human services	-	-	5,705,654	-	5,705,654
Health	1,072,135	-	57,901	-	1,130,036
Culture and recreation	389,443	-	-	-	389,443
Conservation of natural resources	377,996	-	-	-	377,996
Economic development	281,624	-	-	-	281,624
<b>Intergovernmental</b>	-	292,190	-	-	292,190
<b>Debt service</b>					
Principal	8,922	-	-	780,000	788,922
Interest	1,678	-	-	323,741	325,419
Administrative (fiscal) charges	-	-	-	5,625	5,625
<b>Total Expenditures</b>	<b>\$ 12,089,204</b>	<b>\$ 8,203,185</b>	<b>\$ 5,763,555</b>	<b>\$ 1,109,366</b>	<b>\$ 27,165,310</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT 5  
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2018**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Fund Debt Service</u>	<u>Total</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	\$ (71,250)	\$ 581,270	\$ 8,091	\$ 279,717	\$ 797,828
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of capital assets	-	20,374	-	-	20,374
<b>Net Change in Fund Balance</b>	\$ (71,250)	\$ 601,644	\$ 8,091	\$ 279,717	\$ 818,202
<b>Fund Balance – January 1</b>	6,559,525	9,489,465	1,635,671	1,184,069	18,868,730
<b>Increase (decrease) in inventories</b>	-	(117,937)	-	-	(117,937)
<b>Fund Balance – December 31</b>	<u>\$ 6,488,275</u>	<u>\$ 9,973,172</u>	<u>\$ 1,643,762</u>	<u>\$ 1,463,786</u>	<u>\$ 19,568,995</u>

**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, 2018**

**Net change in fund balances – total governmental funds (Exhibit 5) \$ 818,202**

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 inflows of resources – December 31	\$ 3,579,893	
Deferred inflows of resources – January 1	<u>(3,946,844)</u>	(366,951)

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 position differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 3,924,665	
Net book value of assets disposed	(242,992)	
Current year depreciation	<u>(2,733,321)</u>	948,352

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 position. 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 position.

Principal repayments		
General obligation bonds	\$ 780,000	
Loans	8,923	
Current year amortization of discounts and premiums	<u>41,260</u>	830,183

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT 6  
(Continued)**

**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, 2018**

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	\$ 20,322	
Change in accrued interest payable	(98,989)	
Change in net pension liability	2,759,517	
Change in other postemployment benefits liability	(22,019)	
Change in deferred outflows of resources	(1,617,929)	
Change in deferred inflows of resources	(757,725)	
Change in inventories	(117,937)	<u>165,240</u>
<b>Change in Net Position of Governmental Activities (Exhibit 2)</b>		<b><u>\$ 2,395,026</u></b>

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## **FIDUCIARY FUNDS**

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2018**

	<u>Agency Funds</u>
<b><u>Assets</u></b>	
Cash and pooled investments	\$ <u><u>1,579,163</u></u>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 155,255
Due to other governments	<u>1,423,908</u>
<b>Total Liabilities</b>	<b>\$ <u><u>1,579,163</u></u></b>

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2018. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

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

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

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures and Jointly-Governed Organizations

The County participates in joint ventures described in Note 3.D. The County also participates in jointly-governed organizations described in Note 3.C.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position 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 position 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 position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. 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. The County does not allocate indirect expenses to functions within the financial statements.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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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 emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as a separate column in the fund financial statements. All remaining funds are aggregated and reported as nonmajor funds.

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 accounted for in another fund.

The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state governments, as well as committed property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Social Services Special Revenue Fund accounts for restricted revenue sources from federal, state, and other oversight agencies, as well as committed property tax revenues used for economic assistance and community social services programs.

Additionally, the County reports the following fund types:

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

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

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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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 full 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, Deferred Outflows/Inflows of Resources, and Net Position 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, 2018, 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 2018 were \$112,716.



**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position 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 nonspendable fund balance 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 weighted average 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.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position 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 acquisition value.

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:

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

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation, compensatory, 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. The current portion is calculated using a trend analysis based on prior year payouts.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)

6. Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue for resources that have been received, but not yet earned. There was no unearned revenue in 2018.

7. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value. The pension liability is liquidated through the General Fund, Road and Bridge Special Revenue Fund, and Social Services Special Revenue Fund.

8. Long-Term Obligations

In the government-wide statement of net position, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County has two items—deferred charge on refunding and deferred pension and other postemployment benefits (OPEB) outflows—that qualify for reporting in this category. Deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt and only arises under the full accrual basis of accounting. The County reports deferred outflows of resources only under the full accrual basis of accounting associated with pension plans and OPEB and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) or reduction of expense until that time. The County reports two types of deferred inflows—unavailable revenue and deferred pension inflows—that qualify for reporting in this category. Unavailable revenue arises only under a modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also reports deferred inflows of resources associated with pension benefits. These inflows arise only under the full accrual basis of accounting and, accordingly, are reported only in the statement of net position.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)

10. Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

Net investment in capital assets – the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or net investment in capital assets.

11. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

11. Classification of Fund Balances (Continued)

Committed – amounts the County intends to use for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned – amounts the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Finance Director, who has been delegated that authority by Board resolution.

Unassigned – spendable amounts not contained in the other fund balance classifications for the General Fund. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

12. Minimum Fund Balance

Houston County has adopted a minimum fund balance policy to address cash flow or working capital needs for the General Fund and other special revenue funds, which are heavily reliant on property tax revenues to fund current operations. However, property tax revenues are not available for distribution until June. Therefore, the County Board has determined the need to maintain a minimum

**HOUSTON COUNTY  
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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

12. Minimum Fund Balance (Continued)

unassigned fund balance in the General Fund and an unrestricted (committed and assigned) fund balance in the remaining special revenue funds until the tax revenues are distributed. The County Board has determined this amount to be not less than 40 percent and not more than 65 percent of the sum of the most recent budget year's property tax levy.

13. 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, deferred outflows of resources, liabilities, and deferred inflows of resources; and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Change in Accounting Principles

During the year ended December 31, 2018, the County adopted new accounting guidance by implementing the provisions of GASB Statement 75. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, changes standards for recognizing and measuring OPEB liabilities and related deferred outflows of resources, deferred inflows of resources, and OPEB expense. This statement also requires additional note disclosures and a schedule in the required supplementary information. Beginning net position has been restated to reflect this change.

	Governmental Activities
Net Position, January 1, 2018, as previously reported	\$ 76,850,613
Change in accounting principles	8,833
Net Position, January 1, 2018, as restated	\$ 76,859,446

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 16,040,098
Petty cash and change funds	17,160
Investments	3,151,867
Statement of fiduciary net position	
Cash and pooled investments	<u>1,579,163</u>
Total Cash and Investments	<u>\$ 20,788,288</u>

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 all County 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.

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.



**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk of obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2018, the County's deposits were not 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;
- (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;

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 – 3 Years</u>	<u>3 – 13 Years</u>
Municipal bonds	\$ 976,816	\$ -	\$ 679,741	\$ 297,075
Negotiable certificates of deposit	5,560,967	765,371	2,684,992	2,110,604
Total Investments	<u>\$ 6,537,783</u>	<u>\$ 765,371</u>	<u>\$ 3,364,733</u>	<u>\$ 2,407,679</u>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

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

	<u>Credit Rating</u>	<u>Rating Agency</u>	<u>Fair Value</u>
Municipal bonds	AAA/AA/AA+/A+ or Aa2	Standard & Poor's or Moody's	\$ 976,816

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, 2018, none of Houston County's investments were subject to custodial credit risk.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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.

As of December 31, 2018, the County did not have any investments in any one issuer that represented five percent or more of the County's total investments.

Fair Value Measurement

The County measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and
- *Level 3:* Unobservable inputs.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Fair Value Measurement (Continued)

At December 31, 2018, the County had the following recurring fair value measurements.

	December 31, 2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
Municipal bonds	\$ 976,816	\$ -	\$ 976,816	\$ -
Negotiable certificates of deposit	<u>5,560,967</u>	<u>-</u>	<u>5,560,967</u>	<u>-</u>
Total Investments Included in the Fair Value Hierarchy	<u>\$ 6,537,783</u>	<u>\$ -</u>	<u>\$ 6,537,783</u>	<u>\$ -</u>

Debt securities classified in Level 2 are valued using the following approaches:

- Municipal Bonds: a market approach using quoted prices for similar securities in active markets; and
- Negotiable Certificates of Deposit: matrix pricing based on the securities' relationship to benchmark quoted prices.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2018, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Accounts receivable, gross	\$	377,612
Less: allowance for uncollectible		<u>(186,915)</u>
Net Accounts Receivable	\$	<u>190,697</u>

Net receivables for governmental activities are collectible within the year.

The loans receivable are comprised of economic development loans of which \$282,164 is not scheduled for collection in the subsequent year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,180,977	\$ 3,190	\$ -	\$ 1,184,167
Land – infrastructure right-of-way	1,779,146	-	-	1,779,146
Land improvements	251,088	-	-	251,088
Construction in progress – infrastructure	<u>808,414</u>	<u>3,286,094</u>	<u>3,959,492</u>	<u>135,016</u>
Total capital assets not depreciated	<u>\$ 4,019,625</u>	<u>\$ 3,289,284</u>	<u>\$ 3,959,492</u>	<u>\$ 3,349,417</u>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings	\$ 19,087,790	\$ -	\$ -	\$ 19,087,790
Building improvements	1,720,812	-	-	1,720,812
Other improvements	794,961	-	-	794,961
Machinery, furniture, and equipment	7,825,779	635,381	247,004	8,214,156
Infrastructure	103,450,051	3,959,492	496,857	106,912,686
	<u>\$ 132,879,393</u>	<u>\$ 4,594,873</u>	<u>\$ 743,861</u>	<u>\$ 136,730,405</u>
Total capital assets depreciated				
Less: accumulated depreciation for				
Buildings	\$ 2,932,159	\$ 380,457	\$ -	\$ 3,312,616
Building improvements	821,268	34,416	-	855,684
Other improvements	155,131	15,899	-	171,030
Machinery, furniture, and equipment	4,493,550	515,161	211,230	4,797,481
Infrastructure	49,501,943	1,787,388	289,639	50,999,692
	<u>\$ 57,904,051</u>	<u>\$ 2,733,321</u>	<u>\$ 500,869</u>	<u>\$ 60,136,503</u>
Total accumulated depreciation				
Total capital assets depreciated, net	<u>\$ 74,975,342</u>	<u>\$ 1,861,552</u>	<u>\$ 242,992</u>	<u>\$ 76,593,902</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 78,994,967</u>	<u>\$ 5,150,836</u>	<u>\$ 4,202,484</u>	<u>\$ 79,943,319</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General government	\$ 113,702
Public safety	432,528
Highways and streets, including depreciation of infrastructure assets	2,093,974
Human services	7,661
Sanitation	21,631
Culture and recreation	8,784
Economic development	55,041
	<u>                    </u>
Total Depreciation Expense – Governmental Activities	<u>\$ 2,733,321</u>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2018, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Social Services	\$ 5,781

These balances reflect the interfund goods and services provided and not paid at year-end but expected to be paid in the subsequent year.

C. Liabilities

1. Construction Commitments

Houston County has active construction projects as of December 31, 2018. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	\$ 3,026,625	\$ 6,050

2. Long-Term Debt

Loans Payable

In December 2016, Houston County received a grant of \$192,000 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 40 percent of the principal repaid, plus interest at two percent. The remaining \$115,200, plus interest, is to be repaid to the state. Payments on the state loan began in January 2017 with monthly payments of \$1,060 and will be made until December 2026. Total payments due from 2019 to 2026, including interest of \$8,100 at December 31, 2018, are \$103,789. The loan payments will be made from the General Fund.



**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt

Loans Payable (Continued)

Loans payable requirements at December 31, 2018, were as follows:

Year Ending December 31	State Loan	
	Principal	Interest
2019	\$ 12,745	\$ 2,095
2020	11,163	1,557
2021	11,388	1,332
2022	11,618	1,102
2023	11,853	867
2024 – 2026	36,922	1,147
Total	<u>\$ 95,689</u>	<u>\$ 8,100</u>

Bonds

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2018
2009B G.O. Capital Improvement Plan Bonds	2019	\$178,793 – \$462,144	2.00 – 3.25	\$ 2,865,000	\$ 215,000
2009C G.O. Jail Bonds	2025	\$185,000 – \$600,000	2.00 – 3.00	7,250,000	3,205,000
2010A G.O. Capital Improvement Plan Bonds	2022	\$74,534 – \$441,585	1.05 – 3.45	2,695,000	1,300,000
2017A G.O. Jail Bonds	2031	\$65,000 – \$1,315,000	2.00 – 3.00	9,380,000	9,380,000
Total General Obligation Bonds				<u>\$ 22,190,000</u>	<u>\$ 14,100,000</u>

Debt payments for the above debt are being made from the Debt Service Fund.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Debt Service Requirements

Debt service requirements at December 31, 2018, were as follows:

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2019	\$ 870,000	\$ 410,691
2020	920,000	384,347
2021	1,005,000	354,879
2022	985,000	323,968
2023	1,020,000	295,219
2024 – 2028	5,540,000	990,937
2029 – 2031	3,760,000	172,500
Total	<u>\$ 14,100,000</u>	<u>\$ 2,932,541</u>

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
2009B G.O. Capital Improvement Plan Bonds	\$ 680,000	\$ -	\$ 465,000	\$ 215,000	\$ 215,000
2009C G.O. Jail Bonds	3,205,000	-	-	3,205,000	265,000
2010A G.O. Capital Improvement Plan Bonds	1,615,000	-	315,000	1,300,000	325,000
2017A G.O. Jail Bonds	9,380,000	-	-	9,380,000	65,000
Premium on bonds	545,935	-	43,281	502,654	-
Less: discount on bonds	(10,106)	-	(2,021)	(8,085)	-
Total bonds payable	\$ 15,415,829	\$ -	\$ 821,260	\$ 14,594,569	\$ 870,000
Loans payable	104,612	-	8,923	95,689	12,745
Compensated absences	1,141,614	407,561	427,883	1,121,292	100,916
Long-Term Liabilities	<u>\$ 16,662,055</u>	<u>\$ 407,561</u>	<u>\$ 1,258,066</u>	<u>\$ 15,811,550</u>	<u>\$ 983,661</u>

Compensated absences liabilities are generally liquidated by the General Fund and the Road and Bridge and Social Services Special Revenue Funds.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds (Continued)

D. Deferred Outflows/Inflows of Resources

1. Deferred Outflows of Resources

There were no deferred outflows of resources reported in the governmental funds for the year ended December 31, 2018.

2. Deferred Inflows of Resources

As of December 31, 2018, there were various components of unavailable revenue for the governmental funds as follows:

	Unavailable Revenue
Delinquent property taxes	\$ 113,850
Intergovernmental	3,373,777
Other	92,266
Total Governmental Funds	\$ 3,579,893

E. Pension Plans

1. Defined Benefit 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 General Employees Retirement Plan (the General Employees Plan), the Public Employees Police and Fire Plan (the Police and Fire Plan), and the Public Employees Local Government Correctional Service Retirement Plan (the Correctional Plan), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

a. Plan Description (Continued)

The General Employees Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No Houston County employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Police and Fire Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a prorated basis starting with 50 percent after five years and increasing ten percent for each year of service until fully vested after ten years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years and increasing 5.00 percent for each year of service until fully vested after 20 years.

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a prorated basis starting with 50 percent after five years and increasing ten percent for each year of service until fully vested after ten years.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans (Continued)

b. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Plan and Police and Fire Plan benefit recipients receive a future annual 1.00 percent for the post-retirement benefit increase, while Correctional Plan benefit recipients receive 2.50 percent. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will be 2.50 percent. If, after reverting to a 2.50 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.00 percent.

The benefit provisions stated in the following paragraph 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 their public service.

Benefits are based on a member's highest average salary for any 60 consecutive months of allowable service, age, and years of credit at termination of service. In the General Employees Plan, two methods are used to compute benefits for Coordinated Plan members. Members hired prior to July 1, 1989, receive 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 Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. For Police and Fire Plan members, the annuity accrual rate is 3.00 percent of average salary for each year of service. For Correctional Plan members, the annuity accrual rate is 1.90 percent of average salary for each year of service.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

b. Benefits Provided (Continued)

For General Employees Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. For Police and Fire Plan and Correctional Plan members, normal retirement age is 55, and for members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90. Disability benefits are available for vested members and are based on years of service and average high-five salary.

c. Contributions

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. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary in 2018. Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2018. Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2018.

In 2018, the County was required to contribute the following percentages of annual covered salary:

General Employees Plan – Coordinated Plan members	7.50%
Police and Fire Plan	16.20
Correctional Plan	8.75

The employee and employer contribution rates did not change from the previous year.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

c. Contributions (Continued)

The County's contributions for the year ended December 31, 2018, to the pension plans were:

General Employees Plan	\$ 451,479
Police and Fire Plan	165,017
Correctional Plan	85,308

The contributions are equal to the contractually required contributions as set by state statute.

d. Pension Costs

General Employees Plan

At December 31, 2018, the County reported a liability of \$4,931,808 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportion was 0.0889 percent. It was 0.0953 percent measured as of June 30, 2017. The County recognized pension expense of \$288,679 for its proportionate share of the General Employees Plan's pension expense.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

General Employees Plan (Continued)

The County also recognized \$37,759 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan for the fiscal years ended June 30, 2018 and 2019, and \$6 million thereafter, through calendar year 2031.

The County's proportionate share of the net pension liability	\$	4,931,808
State of Minnesota's proportionate share of the net pension liability associated with the County		161,920
Total	\$	5,093,728

The County reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 139,513	\$ 162,932
Changes in actuarial assumptions	533,645	581,447
Difference between projected and actual investment earnings	-	478,243
Changes in proportion	20,730	525,654
Contributions paid to PERA subsequent to the measurement date	227,325	-
Total	\$ 921,213	\$ 1,748,276



**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

General Employees Plan (Continued)

The \$227,325 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2019	\$ 38,602
2020	(470,396)
2021	(519,659)
2022	(102,935)

Police and Fire Plan

At December 31, 2018, the County reported a liability of \$1,018,998 for its proportionate share of the Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportion was 0.096 percent. It was 0.097 percent measured as of June 30, 2017. The County recognized pension expense of \$95,563 for its proportionate share of the Police and Fire Plan's pension expense.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Police and Fire Plan (Continued)

The County also recognized \$8,604 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

The County reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 41,420	\$ 269,002
Changes in actuarial assumptions	1,378,182	1,521,565
Difference between projected and actual investment earnings	-	196,269
Changes in proportion	22,724	210,234
Contributions paid to PERA subsequent to the measurement date	<u>85,303</u>	<u>-</u>
Total	<u>\$ 1,527,629</u>	<u>\$ 2,197,070</u>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Police and Fire Plan (Continued)

The \$85,303 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2019	\$ (35,358)
2020	(84,847)
2021	(165,025)
2022	(463,004)
2023	(6,510)

Correctional Plan

At December 31, 2018, the County reported a liability of \$79,686 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportion was 0.48 percent. It was 0.49 percent measured as of June 30, 2017. The County recognized pension expense of (\$90,643) for its proportionate share of the Correctional Plan's pension expense.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Correctional Plan (Continued)

The County reported its proportionate share of the Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 4,124	\$ 8,614
Changes in actuarial assumptions	349,123	923,175
Difference between projected and actual investment earnings	-	98,898
Changes in proportion	73,836	11,756
Contributions paid to PERA subsequent to the measurement date	43,302	-
Total	\$ 470,385	\$ 1,042,443

The \$43,302 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2019	\$ 38,721
2020	(325,451)
2021	(311,948)
2022	(16,682)

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2018, was \$293,599.

e. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25 percent for the General Employees Plan and 2.00 percent for the Correctional Plan. For the Police and Fire Plan, cost of living benefit increases for retirees are 1.00 percent as set by state statute.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 30, 2015. The experience study for the Police and Fire Plan was dated August 30, 2016. The experience study for the Correctional Plan was dated February 2012. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

e. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	36%	5.10%
International stocks	17	5.30
Bonds (fixed income)	20	0.75
Alternative assets (private markets)	25	5.90
Cash	2	0.00

f. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2018, which remained consistent with 2017. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Plan, the Police and Fire Plan, and the Correctional Plan were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans (Continued)

g. Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2018:

General Employees Plan

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.

Police and Fire Plan

- The mortality projection scale was changed from MP-2016 to MP-2017.
- Post-retirement benefit increases changed to 1.00 percent for all years, with no trigger.
- An end date of July 1, 2048, was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019, and January 1, 2020, from 16.20 percent to 16.95 and 17.70 percent of pay, respectively. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

g. Changes in Actuarial Assumptions and Plan Provisions

Police and Fire Plan (Continued)

- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

Correctional Plan

- The single discount rate was changed from 5.96 percent per annum to 7.50 percent per annum.
- The mortality projection scale was changed from MP-2016 to MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.

h. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	Proportionate Share of the					
	General Employees Plan		Police and Fire Plan		Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability (Asset)
1% Decrease	6.50%	\$ 8,014,819	6.50%	\$ 2,184,795	6.50%	\$ 681,973
Current	7.50	4,931,808	7.50	1,018,998	7.50	79,686
1% Increase	8.50	2,386,870	8.50	54,932	8.50	(402,125)



**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans (Continued)

i. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

2. Defined Contribution Plan

One employee and five Board members of Houston County are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the state legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

E. Pension Plans

2. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by Houston County during the year ended December 31, 2018, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 8,136	\$ 8,136
Percentage of covered payroll	5.00%	5.00%

F. Other Postemployment Benefits (OPEB)

Plan Description

The County provides health insurance benefits for certain retired employees under a single-employer, defined benefit, 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 a similar plan) and do not participate in any other health benefits program providing coverage similar to that herein described, are 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, 2017, there were two retirees receiving health benefits from the County's health plan.

No assets have been accumulated in a trust that meets the criteria in paragraph four of GASB 75. The OPEB plan does not issue a stand-alone financial report.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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2. Detailed Notes on All Funds

F. Other Postemployment Benefits (OPEB)

Plan Description (Continued)

As of the January 1, 2017, actuarial valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	2
Active plan participants	154
Total	156

Total OPEB Liability

The County's total OPEB liability of \$462,066 was measured as of January 1, 2018, and was determined by an actuarial valuation as of January 1, 2017.

The total OPEB liability in the fiscal year-end December 31, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method	Entry Age, level percentage of pay
Inflation	2.50 percent
Salary increases	3.0 percent, average wage inflation plus merit/productivity increases
Health care cost trend	6.25 percent, decreasing 1.25 percent over 5 years

The current year discount rate is 3.30 percent, which is a change from the prior year rate of 3.50 percent. For the current valuation, the discount rate was set by considering published rate information for 20-year high-quality, tax-exempt, general obligation municipal bonds as of the measurement date.

Mortality rates are based on RP-2014 adjusted to 2006 White Collar Mortality Tables with MP-2016 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire personnel).

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

F. Other Postemployment Benefits (OPEB)

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2017, restated	\$ 440,047
Changes for the year	
Service cost	\$ 30,723
Interest	15,145
Benefit payments	(23,849)
Net change	\$ 22,019
Balance at December 31, 2018	\$ 462,066

OPEB liability is liquidated by the General Fund, Road and Bridge Special Revenue Fund, and Social Services Special Revenue Fund.

OPEB Liability Sensitivity

The following presents the total OPEB liability of the County, calculated using the discount rate previously disclosed, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	Discount Rate	Total OPEB Liability
1% Decrease	2.30%	\$ 493,833
Current	3.30	462,066
1% Increase	4.30	432,265

The following presents the total OPEB liability of the County, calculated using the health care cost trend previously disclosed, as well as what the County's total OPEB liability would be if it were calculated using health care cost trend rates that are 1.00 percentage point lower or 1.00 percentage point higher than the current health care cost trend rate:

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

F. Other Postemployment Benefits (OPEB)

OPEB Liability Sensitivity (Continued)

	Health Care Trend Rate	Total OPEB Liability
1% Decrease	5.25% Decreasing to 4.00%	\$ 416,263
Current	6.25% Decreasing to 5.00%	462,066
1% Increase	7.25% Decreasing to 6.00%	515,840

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the County recognized OPEB expense of \$45,868. The County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources
Contributions made subsequent to the measurement date	\$ <u>32,103</u>

The \$32,103 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended December 31, 2019.

Change in Actuarial Methods and Assumptions

The following changes in actuarial methods and assumptions occurred in 2018:

- The actuarial cost method changed from the Projected Unit Credit to Entry Age, level percentage of pay.
- The discount rate used changed from 3.50 percent to 3.30 percent.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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3. Summary of Significant Contingencies and Other Items

A. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2018 and 2019. 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.

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.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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

B. Contingent Liabilities

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer the Agricultural Best Management Loan Program to individuals to implement projects that prevent or mitigate nonpoint source water pollution. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2018.

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

C. Jointly-Governed Organizations

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

The Southeast Minnesota Water Resources Board was formed by Dodge, Fillmore, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha, and Winona Counties. The purpose of this joint powers board is to receive and expend state and nonprofit grants and other related funds for the purpose of comprehensive water management planning. The governing body consists of 18 members. Two Commissioners were appointed from each of the participating County Boards, except for Mower and Wabasha Counties, who each appoint one member. During the year, Houston County made no payments to the joint powers.

The Southeast Minnesota Emergency Medical Services (SEEMS) Joint Powers Board consists of Dodge, Fillmore, Freeborn, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha, and Winona Counties. The purpose of SEEMS is to ensure quality patient care is available throughout the 11-county area by maximizing the response capabilities of emergency medical personnel and to promote public education on injury prevention and appropriate response during a medical emergency. Each member county appoints one member to the Joint Powers Board. During the year, Houston County made no payments to SEEMS.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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3. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

The Region One – Southeast Minnesota Homeland Security and Emergency Management Organization was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the region. There are 16 counties participating, with one member from each entity being represented on the Joint Powers Board. Houston County’s responsibility does not extend beyond making this appointment.

The Minnesota Criminal Justice Data Communications Network Joint Powers Agreement exists to create access for the County Sheriff and County Attorney to systems and tools available from the State of Minnesota, Department of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. During the year, the County made no payments to the joint powers.

Houston County, in conjunction with other local governments, participates in the State of Minnesota’s Sentence to Serve (STS) program. STS is a project of the State Department of Administration’s Strive Toward Excellence in Performance (STEP) program. STEP’s goal is a statewide effort to make positive improvements in public services. It gives the courts an alternative to jail or fines for the nonviolent offenders who can work on a variety of community or state projects. Private funding, funds from various foundations and initiative funds, as well as the Minnesota Departments of Corrections and Natural Resources, provide the funds needed to operate the STS program. Although Houston County has no operational or financial control over the STS program, Houston County paid \$65,798 to the program during the year.

The Southeast Minnesota Immunization Connection (SEMIC) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. During the year, Houston County made payments of \$64,174 to SEMIC.

The Southeast Service Cooperative delivers numerous services to support administrative and instructional functions to its members and to improve learning opportunities. During the year, Houston County made payments of \$2,130 to the Cooperative.



**HOUSTON COUNTY  
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3. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

The Workforce Development provides various job training services to several counties. During the year, Houston County paid \$95,514 to the Workforce Development.

The Southeastern Minnesota Community Action Council (SEMCAC) provides various services on behalf of member counties to assist people to achieve or maintain independence and self-reliance through their own and community resources. SEMCAC provides services in Dodge, Fillmore, Freeborn, Houston, Mower, Steele, and Winona Counties. It also provides housing and redevelopment for Houston County through Bluff Country. During the year, Houston County paid \$38,204 to SEMCAC.

Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created the Minnesota Counties Computer Cooperative (MCCC) to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, Houston County paid \$124,513 to the MCCC.

D. Joint Ventures

Southeastern Minnesota Library

The Southeastern Minnesota Library provides regional library services to counties and cities in southeastern Minnesota. During the year, Houston County paid \$151,144 to the Library.

Southeast Minnesota Regional Emergency Communications Board

The Southeast Minnesota Regional Emergency Communications Board (formerly known as Southeast Minnesota Regional Radio Board) was formed in 2008 under the authority of Minn. Stat. §§ 471.59 and 403.39. It is governed by a membership of 11 counties and one city. The Board consists of one County Commissioner from each member county and one City Council member from the member city. The Board was formulated to provide for the regional administration of enhancements to the Allied Radio Matrix Emergency Response (ARMER) system owned and operated by the State of Minnesota and to enhance and improve interoperable public safety communications along with coordination of 911 and public safety broadband data services within the region.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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3. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southeast Minnesota Regional Emergency Communications Board (Continued)

The financial activities of the Board are accounted for by Olmsted County as the fiscal agent. During 2018, Houston County paid \$1,000 to the Board.

Southeast Minnesota Violent Crime Enforcement Team (SEMVCET)

Houston County and other regional counties and cities have formed the Southeast Minnesota Violent Crime Enforcement Team under the authority of Minn. Stat. § 471.59, to work cooperatively in the enforcement of controlled substance laws and crime-related offenses. The SEMVCET is governed by a governing board made up of members known as “Directors”. The Chief Law Enforcement Officer from each member county and member city shall serve as a Director.

Olmsted County has been appointed as the fiscal agent for the SEMVCET. During 2018, Houston County paid \$7,210 to the SEMVCET.

Family Services Collaborative

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

Control of the Collaborative is vested in a Board of Directors. Houston County appoints two members to this Board. Houston County acts as fiscal agent for the Collaborative. The Collaborative is financed by state grants and appropriations from participating members. During 2018, 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.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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3. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Family Services Collaborative (Continued)

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

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT A-1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 7,999,562	\$ 7,072,609	\$ 6,972,267	\$ (100,342)
Licenses and permits	73,700	74,225	73,115	(1,110)
Intergovernmental	1,726,738	2,785,425	2,845,029	59,604
Charges for services	1,691,782	1,720,983	1,756,084	35,101
Fines and forfeits	7,500	7,500	8,686	1,186
Gifts and contributions	3,000	3,000	3,100	100
Investment earnings	157,900	207,900	112,716	(95,184)
Miscellaneous	246,471	232,591	246,957	14,366
<b>Total Revenues</b>	<b>\$ 11,906,653</b>	<b>\$ 12,104,233</b>	<b>\$ 12,017,954</b>	<b>\$ (86,279)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 241,330	\$ 241,330	\$ 249,743	\$ (8,413)
Courts	85,500	85,500	94,919	(9,419)
Administrator	-	44,008	47,293	(3,285)
County auditor	173,785	175,104	221,482	(46,378)
Motor vehicle/license bureau	111,607	113,913	101,790	12,123
County treasurer	173,984	181,518	179,096	2,422
County assessor	387,848	397,050	344,184	52,866
Elections	106,850	134,299	122,616	11,683
Finance	187,080	191,294	164,745	26,549
Data processing	600,512	582,179	546,556	35,623
Personnel	220,756	225,522	222,284	3,238
Attorney	578,021	588,856	568,766	20,090
Recorder	242,342	263,661	265,560	(1,899)
Surveyor	189,640	193,305	183,253	10,052
Planning and zoning	279,572	283,475	278,209	5,266
Buildings and plant	694,056	726,068	658,765	67,303
Veterans service	105,419	107,679	103,023	4,656
GIS	81,950	81,950	77,172	4,778
Other general government	367,380	356,767	338,315	18,452
<b>Total general government</b>	<b>\$ 4,827,632</b>	<b>\$ 4,973,478</b>	<b>\$ 4,767,771</b>	<b>\$ 205,707</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 1,840,881	\$ 1,886,011	\$ 1,934,331	\$ (48,320)
Boat and water safety	11,950	24,338	19,515	4,823
Emergency services	40,623	41,461	37,327	4,134
Coroner	56,130	56,130	56,130	-
E-911 system	94,754	94,754	92,127	2,627
County jail	1,787,039	1,812,596	1,735,663	76,933
Community corrections	283,776	285,679	279,774	5,905
<b>Total public safety</b>	<b>\$ 4,115,153</b>	<b>\$ 4,200,969</b>	<b>\$ 4,154,867</b>	<b>\$ 46,102</b>
<b>Sanitation</b>				
Solid waste	\$ 724,893	\$ 737,821	\$ 786,418	\$ (48,597)
Recycling	248,379	252,138	248,350	3,788
<b>Total sanitation</b>	<b>\$ 973,272</b>	<b>\$ 989,959</b>	<b>\$ 1,034,768</b>	<b>\$ (44,809)</b>
<b>Health</b>				
Nursing services	\$ 1,179,227	\$ 1,203,353	\$ 1,047,832	\$ 155,521
Transportation	11,500	11,500	18,803	(7,303)
Health center (waivered services)	5,500	5,500	5,500	-
<b>Total health</b>	<b>\$ 1,196,227</b>	<b>\$ 1,220,353</b>	<b>\$ 1,072,135</b>	<b>\$ 148,218</b>
<b>Culture and recreation</b>				
Historical society	\$ 42,500	\$ 42,500	\$ 42,500	\$ -
Parks	50,500	50,500	36,369	14,131
County/regional library	151,144	151,144	205,744	(54,600)
Other culture and recreation	100,000	104,830	104,830	-
<b>Total culture and recreation</b>	<b>\$ 344,144</b>	<b>\$ 348,974</b>	<b>\$ 389,443</b>	<b>\$ (40,469)</b>



**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Conservation of natural resources</b>				
County extension	\$ 177,248	\$ 178,565	\$ 187,044	\$ (8,479)
Soil and water conservation	143,400	143,400	143,400	-
Agriculture society/County fair	24,000	24,000	24,000	-
Water planning	22,672	22,672	23,552	(880)
<b>Total conservation of natural resources</b>	<b>\$ 367,320</b>	<b>\$ 368,637</b>	<b>\$ 377,996</b>	<b>\$ (9,359)</b>
<b>Economic development</b>				
Community development	\$ 99,741	\$ 90,286	\$ 159,899	\$ (69,613)
Airport	50,896	50,896	112,374	(61,478)
Other economic development	9,352	9,352	9,351	1
<b>Total economic development</b>	<b>\$ 159,989</b>	<b>\$ 150,534</b>	<b>\$ 281,624</b>	<b>\$ (131,090)</b>
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 8,922	\$ (8,922)
Interest	-	-	1,678	(1,678)
<b>Total debt service</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,600</b>	<b>\$ (10,600)</b>
<b>Total Expenditures</b>	<b>\$ 11,983,737</b>	<b>\$ 12,252,904</b>	<b>\$ 12,089,204</b>	<b>\$ 163,700</b>
<b>Net Change in Fund Balance</b>	<b>\$ (77,084)</b>	<b>\$ (148,671)</b>	<b>\$ (71,250)</b>	<b>\$ 77,421</b>
<b>Fund Balance – January 1</b>	<b>6,559,525</b>	<b>6,559,525</b>	<b>6,559,525</b>	<b>-</b>
<b>Fund Balance – December 31</b>	<b>\$ 6,482,441</b>	<b>\$ 6,410,854</b>	<b>\$ 6,488,275</b>	<b>\$ 77,421</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,553,438	\$ 2,276,774	\$ 2,240,824	\$ (35,950)
Licenses and permits	5,000	5,000	4,340	(660)
Intergovernmental	6,503,461	6,035,335	6,303,225	267,890
Charges for services	203,000	203,000	204,031	1,031
Investment earnings	17,500	17,500	21,058	3,558
Miscellaneous	8,962	8,962	10,977	2,015
<b>Total Revenues</b>	<b>\$ 9,291,361</b>	<b>\$ 8,546,571</b>	<b>\$ 8,784,455</b>	<b>\$ 237,884</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Transportation</b>				
Administration	\$ 278,423	\$ 297,498	\$ 295,724	\$ 1,774
Maintenance	2,496,849	2,515,829	2,454,573	61,256
Construction	5,007,989	4,277,074	3,974,449	302,625
Equipment maintenance and shop	1,255,774	1,243,525	1,186,249	57,276
<b>Total transportation</b>	<b>\$ 9,039,035</b>	<b>\$ 8,333,926</b>	<b>\$ 7,910,995</b>	<b>\$ 422,931</b>
<b>Intergovernmental</b>				
Highways and streets	292,190	292,190	292,190	-
<b>Total Expenditures</b>	<b>\$ 9,331,225</b>	<b>\$ 8,626,116</b>	<b>\$ 8,203,185</b>	<b>\$ 422,931</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (39,864)</b>	<b>\$ (79,545)</b>	<b>\$ 581,270</b>	<b>\$ 660,815</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	43,000	43,000	20,374	(22,626)
<b>Net Change in Fund Balance</b>	<b>\$ 3,136</b>	<b>\$ (36,545)</b>	<b>\$ 601,644</b>	<b>\$ 638,189</b>
<b>Fund Balance – January 1</b>	<b>9,489,465</b>	<b>9,489,465</b>	<b>9,489,465</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>(117,937)</b>	<b>(117,937)</b>
<b>Fund Balance – December 31</b>	<b>\$ 9,492,601</b>	<b>\$ 9,452,920</b>	<b>\$ 9,973,172</b>	<b>\$ 520,252</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*EXHIBIT A-3*

**BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICES SPECIAL REVENUE FUND  
DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,413,948	\$ 1,247,439	\$ 1,227,422	\$ (20,017)
Intergovernmental	2,988,001	3,154,510	3,593,053	438,543
Charges for services	343,000	343,000	386,344	43,344
Investment earnings	9,500	9,500	10,778	1,278
Miscellaneous	248,600	248,600	554,049	305,449
<b>Total Revenues</b>	<b>\$ 5,003,049</b>	<b>\$ 5,003,049</b>	<b>\$ 5,771,646</b>	<b>\$ 768,597</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,899,279	\$ 1,917,244	\$ 2,152,411	\$ (235,167)
Social services	3,325,982	3,375,280	3,553,243	(177,963)
<b>Total human services</b>	<b>\$ 5,225,261</b>	<b>\$ 5,292,524</b>	<b>\$ 5,705,654</b>	<b>\$ (413,130)</b>
<b>Health</b>				
Public health	-	-	57,901	(57,901)
<b>Total Expenditures</b>	<b>\$ 5,225,261</b>	<b>\$ 5,292,524</b>	<b>\$ 5,763,555</b>	<b>\$ (471,031)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (222,212)</b>	<b>\$ (289,475)</b>	<b>\$ 8,091</b>	<b>\$ 297,566</b>
<b>Fund Balance – January 1</b>	<b>1,635,671</b>	<b>1,635,671</b>	<b>1,635,671</b>	<b>-</b>
<b>Fund Balance – December 31</b>	<b>\$ 1,413,459</b>	<b>\$ 1,346,196</b>	<b>\$ 1,643,762</b>	<b>\$ 297,566</b>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*EXHIBIT A-4*

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS  
OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2018**

	<b>2018</b>
<b>Total OPEB Liability</b>	
Service cost	\$ 30,723
Interest	15,145
Benefit payments	(23,849)
<b>Net change in total OPEB liability</b>	<b>\$ 22,019</b>
<b>Total OPEB Liability – Beginning, as restated</b>	<b>440,047</b>
<b>Total OPEB Liability – Ending</b>	<b>\$ 462,066</b>
Covered-employee payroll	\$ 8,044,084
Total OPEB liability (asset) as a percentage of covered-employee payroll	5.74%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*EXHIBIT A-5*

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PERA GENERAL EMPLOYEES RETIREMENT PLAN  
DECEMBER 31, 2018**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>State's Proportionate Share of the Net Pension Liability Associated with Houston County (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)</b>	<b>Covered Payroll (c)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2018	0.0889 %	\$ 4,931,808	\$ 161,920	\$ 5,093,728	\$ 5,978,318	82.49 %	79.53 %
2017	0.0953	6,083,889	76,526	6,160,415	6,490,088	93.74	75.90
2016	0.1007	8,176,341	106,770	8,283,111	5,560,161	147.05	68.91
2015	0.0959	4,967,497	N/A	4,967,497	5,828,943	85.22	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.  
The measurement date for each year is June 30.  
N/A – Not Applicable

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*EXHIBIT A-6*

**SCHEDULE OF CONTRIBUTIONS  
PERA GENERAL EMPLOYEES RETIREMENT PLAN  
DECEMBER 31, 2018**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
2018	\$ 451,479	\$ 451,479	\$ -	\$ 6,019,720	7.50 %
2017	475,785	475,785	-	6,343,799	7.50
2016	475,097	475,097	-	6,334,627	7.50
2015	420,031	420,031	-	5,600,413	7.50

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.  
The County's year-end is December 31.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*EXHIBIT A-7*

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN  
DECEMBER 31, 2018**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>Covered Payroll (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2018	0.096 %	\$ 1,018,998	\$ 1,007,966	101.09 %	88.84 %
2017	0.097	1,309,615	1,026,852	127.54	85.43
2016	0.104	4,173,700	968,970	430.74	63.88
2015	0.100	1,136,234	920,237	123.47	86.61

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*EXHIBIT A-8*

**SCHEDULE OF CONTRIBUTIONS  
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN  
DECEMBER 31, 2018**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b – a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
2018	\$ 165,017	\$ 165,017	\$ -	\$ 1,018,624	16.20 %
2017	161,164	161,164	-	994,840	16.20
2016	166,829	166,829	-	1,029,809	16.20
2015	152,447	152,447	-	941,029	16.20

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.  
The County's year-end is December 31.



**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*EXHIBIT A-9*

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PERA PUBLIC EMPLOYEES LOCAL GOVERNMENT CORRECTIONAL SERVICE RETIREMENT PLAN  
DECEMBER 31, 2018**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>Covered Payroll (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2018	0.48 %	\$ 79,686	\$ 989,429	8.05 %	97.64 %
2017	0.49	1,396,505	1,111,491	125.64	67.89
2016	0.45	1,643,914	821,174	200.19	58.16
2015	0.43	66,478	776,864	8.56	96.95

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*EXHIBIT A-10*

**SCHEDULE OF CONTRIBUTIONS  
PERA PUBLIC EMPLOYEES LOCAL GOVERNMENT CORRECTIONAL SERVICE RETIREMENT PLAN  
DECEMBER 31, 2018**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
2018	\$ 85,308	\$ 85,308	\$ -	\$ 974,945	8.75 %
2017	86,822	86,822	-	992,251	8.75
2016	81,965	81,965	-	936,732	8.75
2015	69,914	69,914	-	799,026	8.75

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.  
The County's year-end is December 31.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

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1. Budgetary Information

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

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the County Finance Director so that a budget can be prepared. Before September 30, 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 supplementary appropriations to the General Fund, Road and Bridge Special Revenue Fund, and Social Services Special Revenue Fund.

2. Excess of Expenditures Over Budget

The Social Services Special Revenue Fund expenditures of \$5,763,555 exceeded the final budget of \$5,292,524 by \$471,031 due to increased estate recoveries, mental health regional treatment facility, children's services, CREST costs, and public health modified accrual entries, combined with a decrease in staffing costs.

3. Other Postemployment Benefits

In 2018, Houston County implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 2.F. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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4. Employer Contributions to Other Postemployment Benefits

Assets have not been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75 to pay related benefits.

The following changes in actuarial methods and assumptions occurred in 2018:

- The actuarial cost method changed from the Projected Unit Credit to Entry Age, level percentage of pay.
- The discount rate used changed from 3.50 percent to 3.30 percent.

5. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the fiscal year June 30:

General Employees Retirement Plan

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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5. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan

2017 (Continued)

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21 million in calendar years 2017 and 2018 and returns to \$31 million through calendar year 2031. The state's required contribution is \$16 million in PERA's fiscal years 2018 and 2019, and returns to \$6 million annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

2018

- The mortality projection scale was changed from MP-2016 to MP-2017.
- Post-retirement benefit increases changed to 1.00 percent for all years, with no trigger.
- An end date of July 1, 2048, was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100 percent funding, or July 1, 2048, if earlier.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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5. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Police and Fire Plan

2018 (Continued)

- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019, and January 1, 2020, from 16.20 percent to 16.95 and 17.70 percent of pay, respectively. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- The assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.00 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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5. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Police and Fire Plan

2017 (Continued)

- The assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- The assumed percentage of married female members was decreased from 65 percent to 60 percent.
- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064, and 2.50 percent thereafter.
- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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5. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

Public Employees Correctional Plan

2018

- The single discount rate was changed from 5.96 percent per annum to 7.50 percent per annum.
- The mortality projection scale was changed from MP-2016 to MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.

2017

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.00 percent for non-vested members.
- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

2016

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.



**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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5. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Correctional Plan

2016 (Continued)

- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

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**SUPPLEMENTARY INFORMATION**

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**NONMAJOR GOVERNMENTAL FUND**

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

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*EXHIBIT B-1*

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,388,721	\$ 1,330,972	\$ 1,330,175	\$ (797)
Intergovernmental	-	54,275	56,396	2,121
Miscellaneous	-	-	2,512	2,512
<b>Total Revenues</b>	<b>\$ 1,388,721</b>	<b>\$ 1,385,247</b>	<b>\$ 1,389,083</b>	<b>\$ 3,836</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 916,974	\$ 913,500	\$ 780,000	\$ 133,500
Interest	471,747	471,747	323,741	148,006
Administrative (fiscal) charges	-	-	5,625	(5,625)
<b>Total Expenditures</b>	<b>\$ 1,388,721</b>	<b>\$ 1,385,247</b>	<b>\$ 1,109,366</b>	<b>\$ 275,881</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 279,717</b>	<b>\$ 279,717</b>
<b>Fund Balance – January 1</b>	<b>1,184,069</b>	<b>1,184,069</b>	<b>1,184,069</b>	<b>-</b>
<b>Fund Balance – December 31</b>	<b>\$ 1,184,069</b>	<b>\$ 1,184,069</b>	<b>\$ 1,463,786</b>	<b>\$ 279,717</b>

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**FIDUCIARY FUNDS**

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

AGENCY FUNDS

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

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

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

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

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

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

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

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

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

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*EXHIBIT C-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
DECEMBER 31, 2018**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
 <b><u>CROOKED CREEK WATERSHED</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 990	\$ 50,381	\$ 50,180	\$ 1,191
<b><u>Liabilities</u></b>				
Due to other governments	\$ 990	\$ 50,381	\$ 50,180	\$ 1,191
 <b><u>HEALTH</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 31,590	\$ 76,065	\$ 78,456	\$ 29,199
<b><u>Liabilities</u></b>				
Accounts payable	\$ 31,590	\$ 76,065	\$ 78,456	\$ 29,199
 <b><u>REVOLVING</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 66,346	\$ 3,993,417	\$ 4,051,151	\$ 8,612
<b><u>Liabilities</u></b>				
Due to other governments	\$ 66,346	\$ 3,993,417	\$ 4,051,151	\$ 8,612

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
DECEMBER 31, 2018**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>SOIL AND WATER CONSERVATION</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 838,491</u>	<u>\$ 748,812</u>	<u>\$ 551,671</u>	<u>\$ 1,035,632</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 838,491</u>	<u>\$ 748,812</u>	<u>\$ 551,671</u>	<u>\$ 1,035,632</u>
 <b><u>SCHOOL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 180,902</u>	<u>\$ 6,342,922</u>	<u>\$ 6,376,311</u>	<u>\$ 147,513</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 180,902</u>	<u>\$ 6,342,922</u>	<u>\$ 6,376,311</u>	<u>\$ 147,513</u>
 <b><u>FAMILY COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 96,829</u>	<u>\$ 79,754</u>	<u>\$ 102,314</u>	<u>\$ 74,269</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 96,829</u>	<u>\$ 79,754</u>	<u>\$ 102,314</u>	<u>\$ 74,269</u>

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
DECEMBER 31, 2018**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 283,983	\$ 28,696,906	\$ 28,854,833	\$ 126,056
<b><u>Liabilities</u></b>				
Accounts payable	\$ 283,983	\$ 443,205	\$ 601,132	\$ 126,056
Due to other funds	-	13,283,297	13,283,297	-
Due to other governments	-	14,970,404	14,970,404	-
<b>Total Liabilities</b>	<b>\$ 283,983</b>	<b>\$ 28,696,906</b>	<b>\$ 28,854,833</b>	<b>\$ 126,056</b>
 <b><u>TOWNS AND CITIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 185,805	\$ 8,082,328	\$ 8,111,442	\$ 156,691
<b><u>Liabilities</u></b>				
Due to other governments	\$ 185,805	\$ 8,082,328	\$ 8,111,442	\$ 156,691

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
DECEMBER 31, 2018**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<b>\$ 1,684,936</b>	<b>\$ 48,070,585</b>	<b>\$ 48,176,358</b>	<b>\$ 1,579,163</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 315,573	\$ 519,270	\$ 679,588	\$ 155,255
Due to other funds	-	13,283,297	13,283,297	-
Due to other governments	1,369,363	34,268,018	34,213,473	1,423,908
<b>Total Liabilities</b>	<b>\$ 1,684,936</b>	<b>\$ 48,070,585</b>	<b>\$ 48,176,358</b>	<b>\$ 1,579,163</b>



## **OTHER SCHEDULES**

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT D-1**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2018**

**Appropriations and Shared Revenue**

**State**

Highway users tax	\$	5,678,907
PERA contribution		46,363
PERA rate reimbursement		23,814
Disparity reduction aid		130,933
Police aid		110,926
County program aid		957,183
Aquatic invasive species aid		26,484
SCORE		67,729
Riparian protection aid		64,839
Market value credit – agricultural		337,201
Enhanced 911		92,829

**Total appropriations and shared revenue** **\$ 7,537,208**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$	661,669
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**Payments**

**Local**

Arlin Falck Foundation	\$	2,562
Southeast Service Cooperative		1,800
MOFAS		10,000
Payments in lieu of taxes		353,494

**Total payments** **\$ 367,856**

**Grants**

**State**

Minnesota Department/Board of		
Public Safety	\$	198,756
Health		213,705
Natural Resources		114,011
Historical Society		45,732
Human Services		1,356,750
Veterans Affairs		10,000
Corrections		55,174
Transportation		15,574
Water and Soil Resources		49,009
Secretary of State		50,166
Pollution Control Agency		46,224
Peace Officer Standards and Training Board		12,441

**Total state** **\$ 2,167,542**

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT D-1  
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2018**

**Grants (Continued)**

**Federal**

Department of	
Agriculture	\$ 264,185
Justice	1,376
Transportation	32,995
Education	2,264
Health and Human Services	1,590,414
Homeland Security	171,799
Environmental Protection Agency	395

**Total federal** \$ 2,063,428

**Total state and federal grants** \$ 4,230,970

**Total Intergovernmental Revenue** \$ 12,797,703

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT D-2**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
DECEMBER 31, 2018**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>			
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	32573	\$ 79,885
Passed Through Minnesota Department of Human Services SNAP Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	182MN101S2514	<u>145,056</u>
<b>Total U.S. Department of Agriculture</b>			<b>\$ 224,941</b>
<b>U.S. Department of Justice</b>			
Direct Bulletproof Vest Partnership Program	16.607		<b>\$ 1,376</b>
<b>U.S. Department of Transportation</b>			
Passed Through Minnesota Department of Transportation Airport Improvement Program	20.106	3-27-0016-07-18	\$ 25,680
Passed Through Minnesota Department of Public Safety Highway Safety Cluster			
State and Community Highway Safety	20.600	A-ENFRC18-2018-HOUSTONSO-014	903
National Priority Safety Programs	20.616	A-ENFRC18-2018-HOUSTONSO-014	4,544
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC18-2018-HOUSTONSO-014	<u>4,294</u>
<b>Total U.S. Department of Transportation</b>			<b>\$ 35,421</b>
<b>U.S. Environmental Protection Agency</b>			
Passed Through Southeast Minnesota Water Resources Board Nonpoint Source Implementation Grants	66.460	666693	<b>\$ 395</b>
<b>U.S. Department of Education</b>			
Passed Through Minnesota Department of Health Special Education – Grants for Infants and Families	84.181	75371	<b>\$ 2,264</b>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	NU90TP921911-01-00	\$ 24,776
Universal Newborn Hearing Screening	93.251	12-700-00072	750
Immunization Cooperative Agreements	93.268	12-700-00072	750
TANF Cluster			
Temporary Assistance for Needy Families	93.558	12-700-00072	33,326
(Total Temporary Assistance for Needy Families 93.558 \$160,357)			
Maternal and Child Health Services Block Grant to the States	93.994	12-700-00072	23,478

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**EXHIBIT D-2  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
DECEMBER 31, 2018**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services (Continued)</b>			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	G-1701MNFPS	3,997
TANF Cluster			
Temporary Assistance for Needy Families	93.558	1801MNTANF	127,031
(Total Temporary Assistance for Needy Families 93.558 \$160,357)			
Child Support Enforcement	93.563	1804MNCEST	249,110
Child Support Enforcement	93.563	1804MNCSES	52,708
(Total Child Support Enforcement 93.563 \$301,818)			
CCDF Cluster			
Child Care and Development Block Grant	93.596	G1801MNCCDF	4,811
Community-Based Child Abuse Prevention Grants	93.590	G-1702MNFPRPG	2,132
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1701MNCWSS	2,884
Foster Care – Title IV-E	93.658	1801MNFOST	293,403
Social Services Block Grant	93.667	G-1801MNSOSR	97,201
Chafee Foster Care Independence Program	93.674	G-1801MNCILP	6,446
Children's Health Insurance Program	93.767	1805MN5R21	157
Medicaid Cluster			
Medical Assistance Program	93.778	1805MN5ADM	606,379
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 1,529,339</b>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012	HOUSTON FBP-100818	\$ 4,994
Boating Safety Financial Assistance	97.012	HOUSTON FBE-060718	7,100
(Total Boating Safety Financial Assistance 97.012 \$12,094)			
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance Grants	97.042	F-EMPG-2018-HOUSTONCO-2823	18,660
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 30,754</b>
<b>Total Federal Awards</b>			<b>\$ 1,824,490</b>

The County did not pass through any federal awards to subrecipients during the year ended December 31, 2018.

**Totals by Cluster**

Total expenditures for SNAP Cluster	\$ 145,056
Total expenditures for Highway Safety Cluster	5,447
Total expenditures for TANF Cluster	160,357
Total expenditures for CCDF Cluster	4,811
Total expenditures for Medicaid Cluster	606,379

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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1. Reporting Entity

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

2. Basis of Presentation

The 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, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 or changes in net position 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Houston County has elected to not use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

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4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue (Exhibit D-1)	\$ 2,063,428
Unavailable in 2017, recognized as revenue in 2018	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	(36,291)
Child Support Enforcement	(53,911)
Special Supplemental Nutrition Program for Women, Infants, and Children	(2,953)
Airport Improvement Program	(23,255)
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	(141,045)
Promoting Safe and Stable Families	(626)
Temporary Assistance for Needy Families	(29,960)
Stephanie Tubbs Jones Child Welfare Services Program	(518)
Community-Based Child Abuse Prevention Grants	(897)
Grants received more than 60 days after year-end, unavailable in 2018	
Airport Improvement Program	25,681
Promoting Safe and Stable Families	1,005
Temporary Assistance for Needy Families	21,165
Stephanie Tubbs Jones Child Welfare Services Program	739
Community-Based Child Abuse Prevention Grants	654
Chafee Foster Care Independence Program	1,274
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Expenditures per Schedule of Expenditures of Federal Awards (Exhibit D-2)	<u>\$ 1,824,490</u>





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JULIE BLAHA  
STATE AUDITOR

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

### Independent Auditor's Report

Board of County Commissioners  
Houston County  
Caledonia, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houston County, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 17, 2019.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Houston County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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.

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 a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. 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 the attention of those charged with governance.

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2008-002 and 2018-001, that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Houston County's financial statements are free from 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**

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County administers no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Houston County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Questioned Costs as item 2018-004. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

## **Houston County's Response to Findings**

Houston County's responses to the internal control and legal compliance findings identified in our audit are described in the Corrective Action Plan. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Julie Blaha*

JULIE BLAHA  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 17, 2019

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JULIE BLAHA  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

### Independent Auditor's Report

Board of County Commissioners  
Houston County  
Caledonia, Minnesota

### **Report on Compliance for the Major Federal Program**

We have audited Houston County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2018. Houston County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for Houston County's major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the County's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, Houston County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2018-002 and 2018-003. Our opinion on the major federal program is not modified with respect to these matters.

Houston County's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. The County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **Report on Internal Control Over Compliance**

Management of Houston County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.



Our consideration of 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2018-002 and 2018-003, that we consider to be significant deficiencies.

Houston County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. The County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*/s/Julie Blaha*

JULIE BLAHA  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 17, 2019

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**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

**Federal Awards**

Internal control over the major program:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for the major federal program: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **Yes**

The major federal program is:

Medicaid Cluster

Medical Assistance Program

CFDA No. 93.778

The threshold for distinguishing between Types A and B programs was \$750,000.

Houston County qualified as a low-risk auditee? **Yes**

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2018

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2008-002

Segregation of Duties – County Departments

**Criteria:** Internal controls should be designed to provide for an adequate segregation of duties so no one individual handles a transaction from its inception to completion.

**Condition:** Several of the County's departments which collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts, as well as reconciling bank accounts. Specifically, this issue was noted in a review of the Environmental Services Department.

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

**Effect:** Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

**Cause:** The County indicated that due to available resources, the County would not be able to hire additional qualified accounting staff to segregate duties in every department.

**Recommendation:** We recommend the County's elected officials and management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure internal control policies and procedures are being implemented by staff to the extent possible.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**View of Responsible Official:** Concur

ITEM ARISING THIS YEAR

Finding Number 2018-001

Segregation of Duties/Vendor Setup

**Criteria:** Internal controls should be designed to provide for an adequate segregation of duties so that no one individual has the ability to both process disbursements and set up new vendors. Procedures should include someone independent of the vendor payment process to review, verify, and approve new vendors on a timely basis.

**Condition:** Personnel responsible for adding a new vendor or changing an existing vendor file to the accounting system are also responsible for processing payments to vendors. Procedures were previously established to have personnel independent of the vendor maintenance process review a listing of new or changes to vendors quarterly. At the time of review, the previously established procedures disclosed this independent review was not performed for 2018.

**Context:** Segregation of duties between processing vendor payments and establishing a new vendor or making changes to an existing vendor on the accounting system is limited due to the number of office personnel within the County. Departments are provided general ledger reports for review on a monthly basis.

**Effect:** Inadequate segregation of duties could adversely affect the County's ability to prevent, or detect and correct, misstatements in a timely manner.

**Cause:** Due to abrupt personnel changes, the vendor review was not performed.

**Recommendation:** We recommend the County re-evaluate the current procedures established for review of new or changes to vendors to determine if there should be any changes in the procedures currently performed. If current procedures are determined to be adequate, the procedures should be performed in a timely manner.

**View of Responsible Official:** Concur

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2018

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

ITEMS ARISING THIS YEAR

Finding Number 2018-002

Suspension and Debarment Uniform Guidance Policies and Procedures

**Program:** U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award No. 1805MN5ADM, 2018

**Pass-Through Agency:** Minnesota Department of Human Services

**Criteria:** Title 2 U.S. *Code of Federal Regulations* § 200.318 states that the non-federal entity must use its own documented procurement procedures which reflect applicable state, local, and tribal laws and regulations, provided that the procurements conform with applicable federal law and the standards identified in this regulation.

**Condition:** The County's written policies and procedures do not include a reference to suspension and debarment, its requirements, and what the County deems to be sufficient documentation that should be maintained to support compliance with the requirements.

**Context:** This issue was discovered during the audit of the Medical Assistance Program; however, it impacts federal programs entity-wide. Written policies and procedures that reflect the specific components of federal regulations improve controls to help ensure compliance with federal award requirements.

**Effect:** The County is not in compliance with federal regulations.

**Cause:** The County's procurement policy in relation to federal awards was not updated to reflect changes in the requirements prior to the expiration of the final extension of implementation approved by the County Board.

**Recommendation:** We recommend the County develop and implement written policies and procedures that can be consistently applied by all staff which, when followed, ensures compliance with Uniform Guidance suspension and debarment requirements. In addition, this should identify the documentation the County expects staff to maintain to be sufficient to support compliance.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2018

**View of Responsible Official:** Concur

Finding Number 2018-003

Procurement

**Program:** U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award No. 1805MN5ADM, 2018

**Pass-Through Agency:** Minnesota Department of Human Services

**Criteria:** Federal regulations provided in Title 2 U.S. *Code of Federal Regulations* § 200.318(i) state that the non-federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to, the following: rationale for method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Non-federal entities must follow further federal guidance over full and open competition as provided in Title 2 U.S. *Code of Federal Regulations* § 200.319 and support of the rationale to limit competition as provided in Title 2 U.S. *Code of Federal Regulations* § 200.320 (f).

**Condition:** Two of the three procurement transactions over \$3,000 tested for compliance with federal regulations did not have adequate documentation of the history of procurement. These procurements also did not provide documentation for full and open competition as there was no support for solicitation of proposals or noncompetitive proposals, quotes, or bids.

**Context:** Three of the nine procurement transactions over \$3,000 were tested for compliance with federal regulations. The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

**Effect:** The County is not in compliance with federal regulations.

**Cause:** County staff were not fully aware of the new federal requirements and, therefore, did not maintain sufficient documentation.

**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2018

**Recommendation:** We recommend documentation be retained to support the history of procurements, full and open competition, and rationale to limit competition. We also recommend the County ensure all staff making procurement decisions are aware of the changes to the federal award requirements.

**View of Responsible Official:** Concur

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding Number 2018-004

Publication Requirements

**Criteria:** Minnesota statutes contain requirements for publishing County Board budgets, financial statements, and claims paid.

**Condition:** The County was not in compliance with the following State of Minnesota legal requirements:

- Pursuant to Minn. Stat. § 375.169, a summary budget statement is to be published annually upon the adoption of the County budget in a form prescribed by the State Auditor in the County's official newspaper or qualified newspaper of general circulation. The County's 2018 budget was not published in the County's official newspaper or qualified newspaper of general circulation.
- Pursuant to Minn. Stat. § 375.17, the County is to annually publish its financial statements. The County did not publish the financial statements or a summary of the statements in a qualified form prescribed by the Office of the State Auditor for 2018.



**HOUSTON COUNTY  
CALEDONIA, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2018**

- Pursuant to Minn. Stat. § 375.12, County Board minutes must be published within 30 days of the meeting and include an individualized, itemized list of County Board-approved payments over \$2,000. For claims \$2,000 or less, the total number of claims and total amount shall be stated. The County can publish summaries of the minutes, meeting the requirement of Minn. Stat. § 331A.01. However, the County must still publish claims as required by Minn. Stat. § 375.12. Houston County does not publish an itemized list of County Board-approved payments over \$2,000 with the total number of claims and total amount for payments under \$2,000, as provided by Minn. Stat. § 375.12.

**Context:** The County includes the financial statements and preliminary budget information on the County website. Claims are published in total by fund with the Board minute publication.

**Effect:** The County is not in compliance with Minn. Stat. §§ 375.169, 375.17, and 375.12.

**Cause:** The County Board does not wish to incur the additional cost of publication and continues to make the information physically available at the County Government Center for public inspection.

**Recommendation:** We recommend the County publish a summary budget statement and financial statements annually in the County's official newspaper, in accordance with Minn. Stat. §§ 375.169 and 375.17. We also recommend the County comply with Minn. Stat. § 375.12 and publish an itemized list of County Board-approved payments over \$2,000 with the total number of claims and total amount for payments under \$2,000.

**View of Responsible Official:** Acknowledged

**V. PREVIOUSLY REPORTED ITEMS RESOLVED**

2001-002 Disaster Recovery Plan  
2013-001 Workstation Security  
2017-001 Procurement, Suspension, and Debarment (CFDA No. 93.778)  
2017-002 Prompt Payment of Invoices

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# HOUSTON COUNTY

Historic Courthouse  
304 South Marshall Street  
Caledonia, Minnesota 55921

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## REPRESENTATION OF HOUSTON COUNTY CALEDONIA, MINNESOTA

### CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2018

**Finding Number: 2008-002**

**Finding Title: Segregation of Duties - County Departments**

Name of Contact Person Responsible for Corrective Action:

Carol Lapham, Finance Director

Corrective Action Planned:

Staffing levels in cash collecting departments have not changed and the County Board is aware of this and is evaluating possible restructuring or cross departmental collaborations that will allow segregation of duties. Cash audits of departments will also be researched as a possible oversight tool.

Anticipated Completion Date:

12/31/2019

**Finding Number: 2018-001**

**Finding Title: Segregation of Duties/Vendor Setup**

Name of Contact Person Responsible for Corrective Action:

Carol Lapham, Finance Director

Corrective Action Planned:

The Auditor-Treasurer will begin the review that in the past was performed by the former auditor.

Anticipated Completion Date:

12/31/2019

**Finding Number: 2018-002**

**Finding Title: Suspension, and Debarment Policies and Procedures**

**Program: Medical Assistance Program (CFDA No. 93.778)**

Name of Contact Persons Responsible for Corrective Action:

Jeff Babinski, County Administrator and Carol Lapham, Finance Director

Corrective Action Planned:

Houston County will update the Federal Procurement policy as referenced in the Schedule of Findings. The procurement policy update has been discussed as part of the Finance Committee.

Anticipated Completion Date:

12/31/2019

**Finding Number: 2018-003**

**Finding Title: Procurement**

**Program: Medical Assistance Program (CFDA No. 93.778)**

Name of Contact Persons Responsible for Corrective Action:

Jeff Babinski, County Administrator and Carol Lapham, Finance Director

Corrective Action Planned:

The County will review and comply with federal regulations regarding procurement and maintain appropriate documentation. The County's procurement policy will be updated to reflect the new requirements and appropriate procedures and processes to ensure compliance with Federal Regulations.

Anticipated Completion Date:

12/31/2019

**Finding Number: 2018-004**  
**Finding Title: Publication Requirements**

Name of Contact Person Responsible for Corrective Action:

Carol Lapham, Finance Director

Corrective Action Planned:

Houston County will meet all publication requirements as per MN Statutes.

Anticipated Completion Date:

12/31/2019

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# HOUSTON COUNTY

Historic Courthouse  
304 South Marshall Street  
Caledonia, Minnesota 55921

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## REPRESENTATION OF HOUSTON COUNTY CALEDONIA, MINNESOTA

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2018

**Finding Number: 2001-002**

**Finding Title: Disaster Recovery Plan**

**Summary of Condition:** Houston County has an informal disaster recovery agreement with another county, but does not have a formal disaster recovery plan.

**Summary of Corrective Action Previously Reported:** The County has worked through many of the items needed to complete a continuation of operations plan under the coordination of the Emergency Services Manager. Departmental continuation of operations plans have been completed, tabletop disaster exercises have been conducted, and there has been a review of the procedures and processes that were tested. This will be an ongoing process to ensure the County is prepared in the case of a disaster.

**Status:** Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X

**Finding Number: 2008-002**

**Finding Title: Segregation of Duties - County Departments**

**Summary of Condition:** Several of the County's departments which collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts, as well as reconciling bank accounts. Specifically, this issue was noted in review of the Environmental Services Department and the Recorder's Office.

**Summary of Corrective Action Previously Reported:** Staffing levels in cash collecting departments have not changed and the County Board is aware of this and is evaluating possible restructuring or cross departmental collaborations that will allow segregation of duties. Cash audits of departments will also be researched as a possible oversight tool.

**Status:** Not Corrected. Staffing levels in cash collecting departments have not changed, but the County Board is evaluating possible restructuring or cross departmental collaborations that will allow segregation of duties.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X

**Finding Number: 2013-001**

**Finding Title: Workstation Security**

**Summary of Condition:** The County does not require employees to lock access to their workstations when unattended. Workstation security settings are not set to properly protect data and programs from unauthorized access.

**Summary of Corrective Action Previously Reported:** The group policy has been changed to require password entry after 10 minutes of inactivity. The Houston County Computer User Policy will be updated to outline this setting and also direct staff to secure and lock their workstation when not in visual sight of their computer.

**Status:** Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X

**Finding Number: 2017-001**

**Finding Title: Procurement, Suspension, and Debarment**

**Program: Medical Assistance (CFDA No. 93.778)**

**Summary of Condition:** For the one contract tested, verification procedures were not performed to determine that the contractor was not suspended or debarred before the contract was awarded.



**Summary of Corrective Action Previously Reported:** The County will review the policies and procedures in place to include suspension and debarment language in contracts and to maintain documentation of verifications performed to check for suspension and debarment. Procedures to ensure compliance with the requirements over suspension and debarment will be completed prior to awarding contracts to vendors on federally funded projects, and documentation will exist to support the monitoring of and compliance with this requirement.

**Status:** Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X

**Finding Number:** 2017-002

**Finding Title:** Prompt Payment of Invoices

**Summary of Condition:** One of 25 invoices tested for compliance with Minn. Stat. § 471.425 was not paid within 35 days, and interest was not calculated or paid.

**Summary of Corrective Action Previously Reported:** Departments Heads and those other authorized to expend County funds will be provided with the statutory requirements regarding the prompt payment of invoices. Payment of claims will be monitored by the Finance Department and interest will be calculated and paid along with the original invoice amount in the case of late payments.

**Status:** Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X