# STATE OF MINNESOTA

## Office of the State Auditor

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

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

YEAR ENDED DECEMBER 31, 2017

# 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 150 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 650 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, 2017

## 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**

ORGANIZATION
DECEMBER 31, 2017

| | | | Term Expires |
|---|---|---|---|
| Elected | | | |
| Commissioners | | | |
| Chair | Jack Miller | District 1 | January 2021 |
| Vice Chair | Justin Zmyewski | District 2 | January 2019 |
| Board Member | Scott Connor[2] | District 3 | January 2021 |
| Board Member | Teresa Walter | District 4 | January 2019 |
| Board Member | Fred Arnold[1] | District 5 | January 2021 |
| Attorney | Samuel Jandt | | January 2019 |
| Auditor | Char Meiners | | January 2019 |
| County Recorder | Beverly Bauer | | January 2019 |
| County Sheriff | Mark Inglett | | January 2019 |
| District Judge (appointed) | Carmaine Sturino | | January 2021 |
| Treasurer | Donna Trehus | | January 2019 |
| Appointed | | | |
| Assessor | Cynthia Cresswell-Hatleli | | December 2020 |
| County Engineer | Brian Pogodzinski | | April 2021 |
| Coroner | Mayo Medical Examiner | | Indefinite |
| Court Administrator | Darlene Larson | | Indefinite |
| Finance Director | Carol Lapham | | Indefinite |
| Human Services Director | John Pugleasa | | Indefinite |
| Public Health Nurse | Mary Roesler | | Indefinite |
| Veterans Service Officer | Robert Thoen | | January 2020 |

[1]Chair 2018
[2]Vice Chair 2018

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# Financial Section

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**State of Minnesota**
**Office of the State Auditor**

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REBECCA OTTO
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, 2017, 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, 2017, 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.

***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 Governmental Accounting Standards Board, 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 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 4, 2018, 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/Rebecca Otto* | */s/Greg Hierlinger* |
| REBECCA OTTO<br>STATE AUDITOR | GREG HIERLINGER, CPA<br>DEPUTY STATE AUDITOR |

September 4, 2018

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017
(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, 2017. 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 $76,850,613, of which $64,329,284 is in net investment in capital assets and $6,034,725 is restricted to specific purposes.

- Houston County's net position increased by $1,537,516 for the year ended December 31, 2017.

- The net cost of governmental activities for the current fiscal year was $12,593,592. The net cost was funded by general revenues, including taxes and grants.

- Governmental funds' fund balances increased by $808,991.

## 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.

Management's Discussion
and Analysis
(Required Supplementary Information)

Government-Wide Financial Statements ⟷ Fund Financial Statements

Notes to the Financial Statements

Required Supplementary Information
(other than MD&A)

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 $1,537,516 from $75,313,097 to $76,850,613.

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

| | 2017 | 2016 |
|---|---|---|
| Assets | | |
| Current and other assets | $ 23.8 | $ 21.1 |
| Capital assets | 79.0 | 80.2 |
| Total Assets | $ 102.8 | $ 101.3 |
| Deferred Outflows of Resources | | |
| Deferred pension outflows | $ 4.5 | $ 7.8 |
| Deferred charge on refunding | 0.8 | - |
| Total Deferred Outflows of Resources | $ 5.3 | $ 7.8 |
| Liabilities | | |
| Long-term liabilities | $ 25.9 | $ 31.1 |
| Other liabilities | 0.9 | 1.2 |
| Total Liabilities | $ 26.8 | $ 32.3 |
| Deferred Inflows of Resources | | |
| Prepaid property taxes | $ 0.2 | $ - |
| Deferred pension inflows | 4.2 | 1.5 |
| Total Deferred Inflows of Resources | $ 4.4 | $ 1.5 |
| Net Position | | |
| Net investment in capital assets | $ 64.3 | $ 64.8 |
| Restricted | 6.1 | 3.6 |
| Unrestricted | 6.5 | 6.9 |
| Total Net Position | $ 76.9 | $ 75.3 |

Net position of the County's governmental activities decreased by 2.0 percent ($76,850,613 compared to $75,313,097).

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

| | 2017 | 2016 |
|---|---|---|
| Revenues | | |
| Program revenues | | |
| Fees, charges, fines, and other | $ 3.0 | $ 3.1 |
| Operating grants and contributions | 10.2 | 10.5 |
| Capital grants and contributions | 0.2 | 0.1 |
| General revenues | | |
| Property taxes | 11.8 | 11.3 |
| Other taxes and payments in lieu of taxes | 0.6 | 0.6 |
| Grants and contributions | 1.4 | 1.4 |
| Other general revenues | 0.4 | 0.5 |
| Total Revenues | $ 27.6 | $ 27.5 |
| Expenses | | |
| General government | $ 4.6 | $ 4.5 |
| Public safety | 5.0 | 5.4 |
| Transportation | 7.1 | 10.7 |
| Human services | 5.3 | 5.0 |
| Health | 1.4 | 1.8 |
| Sanitation | 1.0 | 1.0 |
| Culture and recreation | 0.4 | 0.3 |
| Conservation of natural resources | 0.3 | 0.3 |
| Economic development | 0.4 | 0.4 |
| Interest | 0.5 | 0.6 |
| Total Expenses | $ 26.0 | $ 30.0 |
| Increase (Decrease) in Net Position | $ 1.6 | $ (2.5) |
| Net Position - January 1 | 75.3 | 77.8 |
| Net Position - December 31 | $ 76.9 | $ 75.3 |

## Governmental Activities

The cost of all governmental activities this year was $26,023,759. However, as shown in the Statement of Activities, the amount that the taxpayers ultimately financed for these activities through County property taxes was only $11,795,732, because some of the cost was paid by those who directly benefited from the programs ($2,951,791) or by other governments and organizations that subsidized certain programs with grants and contributions ($10,478,376). The County paid for the remaining "public benefit" portion of governmental activities with $14,131,108 in general revenues, primarily property taxes and other revenues, such as interest and general entitlements, resulting in an increase to net position of $1,537,516.

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

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

| | Total Cost of Services | | Net Cost (Revenue) of Services | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Transportation | $ 7.1 | $ 10.7 | $ 1.1 | $ 4.8 |
| Human services | 5.3 | 5.0 | 1.6 | 1.3 |
| Public safety | 5.0 | 5.4 | 4.3 | 4.3 |
| General government | 4.6 | 4.5 | 3.9 | 3.9 |

## 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, 2017, Houston County's governmental funds reported combined ending fund balances of $18,868,730, an increase of $808,991 in comparison with 2016. The County is reporting an unassigned fund balance of $5,351,384 in 2017. 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, 2017, unassigned fund balance was $5,351,384, while total fund balance was $6,559,525. 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 45.0 percent of total General Fund expenditures, while total fund balance represents 55.2 percent of the same amount. While the 2017 General Fund final budget reflected a $155,407 use of fund balance, the General Fund ended the year adding $555,018 to fund balance. The General Fund December 31, 2017, fund balance of $6,559,525 increased from the 2016 balance of $6,004,507.

The Road and Bridge Special Revenue Fund's fund balance increased by $522,398 to $9,489,465, of which $7,940,567 is assigned. The Road and Bridge Department collected $199,091 in wheelage tax revenue in 2017. The total amount restricted for wheelage tax is designated to fund the future County Road 249 paving project. In 2017, reimbursements in the amount of $504,519 were received for the 2016 Federal Disaster flood which contributed to the fund balance increase.

The Social Services Special Revenue Fund's fund balance decreased by $311,662 to $1,635,671, all of which is assigned. The decrease in fund balance is the result of a delay in reimbursement of 2017 revenues and an increase in adult mental health regional treatment facility costs.

### General Fund Budgetary Highlights

Houston County revised its General Fund budget during 2017, increasing expected revenues by 2.49 percent and increasing appropriations by 1.03 percent, respectively. For the year ended December 31, 2017, expenditures were less than final budget by $655,036.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2017, the County had $78,994,967 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net decrease (including additions and deductions) of $1,185,289, or 1.5 percent, under 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)**

| | 2017 | 2016 |
|---|---|---|
| Land | $ 3.2 | $ 3.2 |
| Construction in progress | 0.8 | 0.1 |
| Buildings and improvements | 17.7 | 18.1 |
| Machinery, furniture, and equipment | 3.3 | 3.3 |
| Infrastructure | 54.0 | 55.5 |
| Totals | $ 79.0 | $ 80.2 |

## Long-Term Debt

At the end of the current fiscal year, the County had total general obligation bonds outstanding in the amount of $15,415,829, 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)**

| | 2017 | 2016 |
|---|---|---|
| G.O. bonds | $ 15.4 | $ 15.4 |

Other obligations include loans payable, compensated absences, pension benefits, and other postemployment benefits. On December 27, 2017, the County issued $9,380,000 of general obligation refunding bonds to advance refund $4,045,000 of the 2009C General Obligation Jail Bonds and $5,220,000 of the 2010B General Obligation Jail Bonds. This advance refunding was undertaken to reduce total debt service payments and resulted in an economic gain of $687,174.

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

The County's elected and appointed officials considered many factors when setting the fiscal year 2018 budget, tax rates, and fees that will be charged for the government-type activities.

- The unemployment rate in Houston County decreased, moving from 3.98 percent in 2016 to 3.55 percent in 2017 for the annual average. This is lower than the U.S. average of 4.35 percent but slightly higher than the Minnesota rate of 3.46 percent.

- County General Fund expenditures for 2018 are budgeted to decrease 4.5 percent from the 2017 level.

- Houston County's population decreased by 5.1 percent from 2007 (19,779) to 2017 (18,761), compared to an increase of 6.0 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 2018.

- During 2018, 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 will see organizational changes beginning in 2018 with the hiring 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, 2017**

| | | |
|---|---|---|
| **Assets** | | |
| Cash and pooled investments | $ | 14,810,237 |
| Petty cash and change funds | | 17,160 |
| Investments | | 3,127,826 |
| Taxes receivable | | |
| Delinquent | | 173,187 |
| Accounts receivable - net | | 262,416 |
| Accrued interest receivable | | 28,921 |
| Loans receivable | | 460,306 |
| Due from other governments | | 4,363,129 |
| Inventories | | 575,431 |
| Prepaid items | | 10,014 |
| Capital assets | | |
| Non-depreciable | | 4,019,625 |
| Depreciable - net of accumulated depreciation | | 74,975,342 |
| **Total Assets** | **$** | **102,823,594** |
| **Deferred Outflows of Resources** | | |
| Deferred charge on refunding | $ | 733,788 |
| Deferred pension outflows | | 4,512,814 |
| **Total Deferred Outflows of Resources** | **$** | **5,246,602** |
| **Liabilities** | | |
| Accounts payable | $ | 276,249 |
| Salaries payable | | 172,629 |
| Contracts payable | | 94,455 |
| Due to other governments | | 218,432 |
| Accrued interest payable | | 75,522 |
| Customer deposits | | 24,194 |
| Long-term liabilities | | |
| Due within one year | | 893,471 |
| Due in more than one year | | 15,768,584 |
| Net other postemployment benefits obligation | | 448,880 |
| Net pension liability | | 8,790,009 |
| **Total Liabilities** | **$** | **26,762,425** |

*EXHIBIT 1*
*(Continued)*

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017**

| | | |
|---|---|---|
| **Deferred Inflows of Resources** | | |
| Prepaid property taxes | $ | 227,094 |
| Deferred pension inflows | | 4,230,064 |
| **Total Deferred Inflows of Resources** | **$** | **4,457,158** |
| **Net Position** | | |
| Net investment in capital assets | $ | 64,329,284 |
| Restricted for | | |
| General government | | 232,552 |
| Public safety | | 323,766 |
| Debt service | | 1,184,069 |
| Highways and streets | | 3,975,569 |
| Economic development | | 318,769 |
| Unrestricted | | 6,486,604 |
| **Total Net Position** | **$** | **76,850,613** |

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

***EXHIBIT 2***

**STATEMENT OF ACTIVITIES**
**DECEMBER 31, 2017**

| | Expenses | Program Revenues: Fees, Charges, Fines, and Other | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenues and Change in Net Position |
|---|---|---|---|---|---|
| **Functions/Programs** | | | | | |
| **Primary government** | | | | | |
| **Governmental activities** | | | | | |
| General government | $ 4,554,725 | $ 396,721 | $ 260,017 | $ - | $ (3,897,987) |
| Public safety | 5,044,820 | 388,056 | 312,474 | 19,130 | (4,325,160) |
| Transportation | 7,125,264 | 271,232 | 5,575,158 | 197,179 | (1,081,695) |
| Sanitation | 972,337 | 577,310 | 116,193 | - | (278,834) |
| Human services | 5,281,252 | 676,317 | 2,991,339 | - | (1,613,596) |
| Health | 1,427,482 | 572,175 | 697,236 | - | (158,071) |
| Culture and recreation | 364,312 | 58,095 | - | - | (306,217) |
| Conservation of natural resources | 348,907 | 1,330 | 127,585 | - | (219,992) |
| Economic development | 426,101 | 10,555 | 172,765 | 9,300 | (233,481) |
| Interest | 478,559 | - | - | - | (478,559) |
| **Total Governmental Activities** | **$ 26,023,759** | **$ 2,951,791** | **$ 10,252,767** | **$ 225,609** | **$ (12,593,592)** |

| | |
|---|---|
| **General Revenues** | |
| Property taxes | $ 11,795,732 |
| Mortgage registry and deed tax | 15,379 |
| Wheelage tax | 199,091 |
| Payments in lieu of tax | 352,114 |
| Grants and contributions not restricted to specific programs | 1,374,034 |
| Unrestricted investment earnings | 152,168 |
| Miscellaneous | 226,727 |
| Gain on sale of capital assets | 15,863 |
| **Total general revenues** | **$ 14,131,108** |
| **Change in net position** | **$ 1,537,516** |
| **Net Position - Beginning** | **75,313,097** |
| **Net Position - Ending** | **$ 76,850,613** |

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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, 2017**

| | General | Road and Bridge | Social Services | Nonmajor Fund Debt Service | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and pooled investments | $ 5,382,010 | $ 7,494,478 | $ 730,294 | $ 1,203,455 | $ 14,810,237 |
| Petty cash and change funds | 17,060 | 100 | - | - | 17,160 |
| Investments | 936,914 | 1,492,310 | 698,602 | - | 3,127,826 |
| Taxes receivable | | | | | |
| Delinquent | 103,423 | 31,569 | 18,713 | 19,482 | 173,187 |
| Accounts receivable - net | 54,002 | 6,044 | 202,370 | - | 262,416 |
| Loans receivable | 460,306 | - | - | - | 460,306 |
| Accrued interest receivable | 25,314 | 2,921 | 686 | - | 28,921 |
| Due from other funds | 12,707 | - | - | - | 12,707 |
| Due from other governments | 176,084 | 3,567,579 | 619,466 | - | 4,363,129 |
| Prepaid expense | 10,014 | - | - | - | 10,014 |
| Inventories | - | 575,431 | - | - | 575,431 |
| **Total Assets** | **$ 7,177,834** | **$ 13,170,432** | **$ 2,270,131** | **$ 1,222,937** | **$ 23,841,334** |
| **Liabilities, Deferred Inflows of Resources, and Fund Balances** | | | | | |
| **Liabilities** | | | | | |
| Accounts payable | $ 109,265 | $ 13,377 | $ 153,607 | $ - | $ 276,249 |
| Salaries payable | 106,980 | 25,850 | 39,799 | - | 172,629 |
| Contracts payable | - | 94,455 | - | - | 94,455 |
| Due to other funds | - | - | 12,707 | - | 12,707 |
| Due to other governments | 137,574 | 12,075 | 68,783 | - | 218,432 |
| Customer deposits | 24,194 | - | - | - | 24,194 |
| **Total Liabilities** | **$ 378,013** | **$ 145,757** | **$ 274,896** | **$ -** | **$ 798,666** |
| **Deferred Inflows of Resources** | | | | | |
| Unavailable revenue | $ 104,574 | $ 3,494,653 | $ 335,157 | $ 12,460 | $ 3,946,844 |
| Prepaid property taxes | 135,722 | 40,557 | 24,407 | 26,408 | 227,094 |
| **Total Deferred Inflows of Resources** | **$ 240,296** | **$ 3,535,210** | **$ 359,564** | **$ 38,868** | **$ 4,173,938** |

*EXHIBIT 3*
*(Continued)*

**BALANCE SHEET**
**GOVERNMENTAL FUNDS**
**DECEMBER 31, 2017**

| | General | Road and Bridge | Social Services | Nonmajor Fund Debt Service | Total |
|---|---|---|---|---|---|
| **Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)** | | | | | |
| **Fund Balances** | | | | | |
| Nonspendable | | | | | |
| Prepaid items | $ 10,014 | $ - | $ - | $ - | $ 10,014 |
| Long-term loans receivable | 323,041 | - | - | - | 323,041 |
| Inventories | - | 575,431 | - | - | 575,431 |
| Restricted for | | | | | |
| Debt service | - | - | - | 1,184,069 | 1,184,069 |
| Recorder's technology equipment | 109,822 | - | - | - | 109,822 |
| Recorder's compliance | 110,282 | - | - | - | 110,282 |
| E-911 | 135,534 | - | - | - | 135,534 |
| Economic development loans | 318,768 | - | - | - | 318,768 |
| Conceal and carry | 141,767 | - | - | - | 141,767 |
| Sheriff's DUI forfeiture | 46,465 | - | - | - | 46,465 |
| Attorney forfeited property | 12,448 | - | - | - | 12,448 |
| Road and bridge projects | - | 159,296 | - | - | 159,296 |
| Wheelage tax | - | 814,171 | - | - | 814,171 |
| Assigned | | | | | |
| Road and bridge | - | 7,940,567 | - | - | 7,940,567 |
| Human services | - | - | 1,635,671 | - | 1,635,671 |
| Unassigned | 5,351,384 | - | - | - | 5,351,384 |
| **Total Fund Balances** | **$ 6,559,525** | **$ 9,489,465** | **$ 1,635,671** | **$ 1,184,069** | **$ 18,868,730** |
| **Total Liabilities, Deferred Inflows of Resources, and Fund Balances** | **$ 7,177,834** | **$ 13,170,432** | **$ 2,270,131** | **$ 1,222,937** | **$ 23,841,334** |

## HOUSTON COUNTY
## CALEDONIA, MINNESOTA

*EXHIBIT 4*

### RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
### TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
### DECEMBER 31, 2017

| | | |
|---|---|---|
| **Fund balances - total governmental funds (Exhibit 3)** | | **$ 18,868,730** |
| 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. | | 78,994,967 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. | | 3,946,844 |
| Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in the governmental funds. | | 4,512,814 |
| Deferred outflows of resources resulting from debt refundings are not reported in the governmental funds. | | 733,788 |
| 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 | $ (104,612) | |
| Bonds payable | (14,880,000) | |
| Bond discount | 10,106 | |
| Bond premium | (545,935) | |
| Accrued interest payable | (75,522) | |
| Net pension liability | (8,790,009) | |
| Net other postemployment benefits obligation | (448,880) | |
| Compensated absences | (1,141,614) | (25,976,466) |
| 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. | | (4,230,064) |
| **Net Position of Governmental Activities (Exhibit 1)** | | **$ 76,850,613** |

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

*EXHIBIT 5*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**
**GOVERNMENTAL FUNDS**
**DECEMBER 31, 2017**

| | General | Road and Bridge | Social Services | Nonmajor Fund Debt Service | Total |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Taxes | $ 7,179,317 | $ 2,271,430 | $ 1,246,129 | $ 1,337,295 | $ 12,034,171 |
| Licenses and permits | 78,134 | 5,725 | - | - | 83,859 |
| Intergovernmental | 2,915,299 | 4,338,983 | 3,051,450 | 55,804 | 10,361,536 |
| Charges for services | 1,879,452 | 270,971 | 305,089 | - | 2,455,512 |
| Fines and forfeits | 22,980 | - | - | - | 22,980 |
| Investment earnings | 127,152 | 17,983 | 7,033 | - | 152,168 |
| Miscellaneous | 242,431 | 11,095 | 332,466 | - | 585,992 |
| **Total Revenues** | **$ 12,444,765** | **$ 6,916,187** | **$ 4,942,167** | **$ 1,393,099** | **$ 25,696,218** |
| **Expenditures** | | | | | |
| **Current** | | | | | |
| General government | $ 4,390,288 | $ - | $ - | $ - | $ 4,390,288 |
| Public safety | 3,965,170 | - | - | - | 3,965,170 |
| Transportation | - | 6,197,148 | - | - | 6,197,148 |
| Sanitation | 1,033,650 | - | - | - | 1,033,650 |
| Human services | - | - | 5,253,829 | - | 5,253,829 |
| Health | 1,415,423 | - | - | - | 1,415,423 |
| Culture and recreation | 355,528 | - | - | - | 355,528 |
| Conservation of natural resources | 345,908 | - | - | - | 345,908 |
| Economic development | 371,060 | - | - | - | 371,060 |
| **Intergovernmental** | - | 250,198 | - | - | 250,198 |
| **Debt service** | | | | | |
| Principal | 10,588 | - | - | 615,000 | 625,588 |
| Interest | 2,132 | - | - | 547,762 | 549,894 |
| Bond issuance costs | - | - | - | 86,264 | 86,264 |
| Administrative (fiscal) charges | - | - | - | 5,100 | 5,100 |
| **Total Expenditures** | **$ 11,889,747** | **$ 6,447,346** | **$ 5,253,829** | **$ 1,254,126** | **$ 24,845,048** |
| **Excess of Revenues Over (Under Expenditures)** | **$ 555,018** | **$ 468,841** | **$ (311,662)** | **$ 138,973** | **$ 851,170** |

HOUSTON COUNTY
CALEDONIA, MINNESOTA

*EXHIBIT 5*
*(Continued)*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**
**GOVERNMENTAL FUNDS**
**DECEMBER 31, 2017**

| | General | Road and Bridge | Social Services | Nonmajor Fund Debt Service | Total |
|---|---|---|---|---|---|
| **Other Financing Sources (Uses)** | | | | | |
| Refunding bonds issued | $ - | $ - | $ - | $ 9,380,000 | $ 9,380,000 |
| Payment to refund bonds (escrow agent) | - | - | - | (9,998,788) | (9,998,788) |
| Premium on bonds issued | - | - | - | 523,052 | 523,052 |
| Proceeds from sale of capital assets | - | 15,863 | - | - | 15,863 |
| **Total Other Financing Sources (Uses)** | **$ -** | **$ 15,863** | **$ -** | **$ (95,736)** | **$ (79,873)** |
| **Net Change in Fund Balance** | **$ 555,018** | **$ 484,704** | **$ (311,662)** | **$ 43,237** | **$ 771,297** |
| **Fund Balance - January 1** | **6,004,507** | **8,967,067** | **1,947,333** | **1,140,832** | **18,059,739** |
| **Increase (decrease) in inventories** | **-** | **37,694** | **-** | **-** | **37,694** |
| **Fund Balance - December 31** | **$ 6,559,525** | **$ 9,489,465** | **$ 1,635,671** | **$ 1,184,069** | **$ 18,868,730** |

# 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, 2017

| | | |
|---|---|---|
| **Net change in fund balances - total governmental funds (Exhibit 5)** | | **$ 771,297** |
| 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 | $ 3,946,844 | |
| Deferred inflows of resources - January 1 | (2,018,552) | 1,928,292 |
| 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 | $ 1,467,015 | |
| Net book value of assets disposed | (1,634) | |
| Current year depreciation | (2,650,670) | (1,185,289) |
| 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. | | |
| Proceeds of new debt | | |
| Refunding bonds issued | $ (9,380,000) | |
| Premium on new debt | (523,052) | |
| Principal repayments | | |
| General obligation bonds | 615,000 | |
| Loans | 10,588 | |
| Advance refunding | 9,265,000 | |
| Current year amortization of discounts and premiums | 4,150 | (8,314) |

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

*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, 2017**

| | | |
|---|---|---|
| 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 | $ 17,021 | |
| Change in accrued interest payable | 158,549 | |
| Change in net pension liability | 5,203,946 | |
| Change in net other postemployment benefits obligation | (25,742) | |
| Change in deferred outflows of resources | (2,530,713) | |
| Change in deferred inflows of resources | (2,829,225) | |
| Change in inventories | 37,694 | 31,530 |
| **Change in Net Position of Governmental Activities (Exhibit 2)** | | **$ 1,537,516** |

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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, 2017**

| | | Agency Funds |
|---|---|---|
| **Assets** | | |
| Cash and pooled investments | **$** | **1,684,936** |
| **Liabilities** | | |
| Accounts payable | $ | 315,573 |
| Due to other governments | | 1,369,363 |
| **Total Liabilities** | **$** | **1,684,936** |

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

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2017. 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.

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

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net 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.

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.

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, 2017, 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 2017 were $127,152.

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.

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:

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

5. Compensated Absences

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

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 2017.

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 and other governmental funds that have personal services.

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.

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 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. Deferred pension outflows also arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, differences between expected and actual pension plan economic experience, differences between projected and actual earnings on pension plan investments, changes in actuarial assumptions, and pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position. No deferred outflows of resources affect the governmental funds financial statements in the current year.

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 three types of deferred inflows--unavailable revenue, prepaid property taxes, 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. Prepaid property taxes arise under both the modified accrual and the full accrual basis of accounting and, accordingly, are reported in the governmental funds balance sheet and the statement of net position. Deferred pension inflows arise only under an accrual basis of accounting and, accordingly, are reported only in the statement of net position. This amount consists of differences between expected and actual

1. Summary of Significant Accounting Policies

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

      9. Deferred Outflows/Inflows of Resources (Continued)

         pension plan economic experience, differences between projected and actual earnings on pension plan investments, changes in actuarial assumptions, and pension plan changes in proportionate share.

      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.

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

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.

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 | $ 14,810,237 |
| Petty cash and change funds | 17,160 |
| Investments | 3,127,826 |
| Statement of fiduciary net position | |
| Cash and pooled investments | 1,684,936 |
| Total Cash and Investments | $ 19,640,159 |

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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.

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, 2017, the County's deposits were not exposed to custodial credit risk.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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;

(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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Interest Rate Risk (Continued)

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.

| Investment Type | Fair Value | Less Than 1 Year | 1 - 3 Years | 3 - 13 Years |
|---|---|---|---|---|
| Municipal bonds | $ 982,270 | $ - | $ 682,420 | $ 299,850 |
| Negotiable certificates of deposit | 5,359,061 | 97,912 | 3,284,836 | 1,976,313 |
| Total Investments | $ 6,341,331 | $ 97,912 | $ 3,967,256 | $ 2,276,163 |

Credit Risk

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

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

| | Credit Rating | Rating Agency | Fair Value |
|---|---|---|---|
| Municipal bonds | AAA/AA/AA+/A+ or Aa2 | Standard & Poor's or Moody's | $ 982,270 |

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County's policy is to minimize custodial credit risk by limiting investments with any one broker to no more than ten percent of its Securities Investor Protection Corporation coverage plus any excess coverage if provided. At December 31, 2017, none of Houston County's investments were subject to custodial credit risk.

Concentration of Credit Risk

It is the County's policy to minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

As of December 31, 2017, 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.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Fair Value Measurement (Continued)

At December 31, 2017, the County had the following recurring fair value measurements.

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | December 31, 2017 | 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 | $ 982,270 | $ - | $ 982,270 | $ - |
| Negotiable certificates of deposit | 5,359,061 | - | 5,359,061 | - |
| Total Investments Included in the Fair Value Hierarchy | $ 6,341,331 | $ - | $ 6,341,331 | $ - |

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.

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2017, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

| | |
|---|---|
| Accounts receivable, gross | $ 449,441 |
| Less: allowance for uncollectible | (187,025) |
| Net Accounts Receivable | $ 262,416 |

Net receivables for governmental activities are collectible within the year.

Of the loans receivable, $93,287 were made with funding through the State of Minnesota to help qualified businesses directly and adversely affected by the 2007 flood. Part of the loans may be written off if the business meets qualifications for a period of time, and part of the loans will be paid back by the businesses. The flood loans receivable balance is scheduled for 100 percent collection in the subsequent year. The remaining loans receivable balance of $367,019 are for economic development loans, of which $323,041 is not scheduled for collection in the subsequent year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|---|---|---|---|
| Capital assets not depreciated | | | | |
| Land | $ 1,180,337 | $ 640 | $ - | $ 1,180,977 |
| Land - infrastructure right-of-way | 1,779,146 | - | - | 1,779,146 |
| Land improvements | 251,088 | - | - | 251,088 |
| Construction in progress - infrastructure | 96,650 | 896,551 | 184,787 | 808,414 |
| Total capital assets not depreciated | $ 3,307,221 | $ 897,191 | $ 184,787 | $ 4,019,625 |

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 | 7,395,210 | 569,824 | 139,255 | 7,825,779 |
| Infrastructure | 103,265,264 | 184,787 | - | 103,450,051 |
| Total capital assets depreciated | $ 132,264,037 | $ 754,611 | $ 139,255 | $ 132,879,393 |
| Less: accumulated depreciation for | | | | |
| Buildings | $ 2,551,702 | $ 380,457 | $ - | $ 2,932,159 |
| Building improvements | 786,852 | 34,416 | - | 821,268 |
| Other improvements | 139,232 | 15,899 | - | 155,131 |
| Machinery, furniture, and equipment | 4,114,888 | 516,283 | 137,621 | 4,493,550 |
| Infrastructure | 47,798,328 | 1,703,615 | - | 49,501,943 |
| Total accumulated depreciation | $ 55,391,002 | $ 2,650,670 | $ 137,621 | $ 57,904,051 |
| Total capital assets depreciated, net | $ 76,873,035 | $ (1,896,059) | $ 1,634 | $ 74,975,342 |
| Governmental Activities Capital Assets, Net | $ 80,180,256 | $ (998,868) | $ 186,421 | $ 78,994,967 |

Depreciation expense was charged to functions/programs as follows:

| | |
|---|---|
| Governmental Activities | |
| General government | $ 114,671 |
| Public safety | 441,940 |
| Highways and streets, including depreciation of infrastructure assets | 2,006,781 |
| Human services | 6,254 |
| Sanitation | 17,199 |
| Culture and recreation | 8,784 |
| Economic development | 55,041 |
| Total Depreciation Expense - Governmental Activities | $ 2,650,670 |

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2017, is as follows:

Due To/From Other Funds

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General | Social Services | $ 12,707 |

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, 2017. The projects include the following:

| | Spent-to-Date | Remaining Commitment |
|---|---|---|
| Governmental Activities | | |
| Roads and bridges | $ 96,351 | $ 805 |

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 2 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 2018 to 2026, including interest of $9,776 at December 31, 2017, are $114,388. The loan payments will be made from the General Fund.

2. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt

Loans Payable (Continued)

Loans payable requirements at December 31, 2017, were as follows:

| Year Ending December 31 | State Loan Principal | State Loan Interest |
|---|---|---|
| 2018 | $ 10,726 | $ 1,994 |
| 2019 | 10,942 | 1,778 |
| 2020 | 11,163 | 1,557 |
| 2021 | 11,388 | 1,332 |
| 2022 | 11,618 | 1,102 |
| 2023 - 2026 | 48,775 | 2,013 |
| Total | $ 104,612 | $ 9,776 |

Bonds

| Type of Indebtedness | Final Maturity | Installment Amounts | Interest Rate (%) | Original Issue Amount | Outstanding Balance December 31, 2017 |
|---|---|---|---|---|---|
| 2009B G.O. Capital Improvement Plan Bonds | 2019 | $178,793 - $462,144 | 2.00 - 3.25 | $ 2,865,000 | $ 680,000 |
| 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 | 1,615,000 |
| 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 | | | | $ 22,190,000 | $ 14,880,000 |

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

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Debt Service Requirements

Debt service requirements at December 31, 2017, were as follows:

| Year Ending December 31 | General Obligation Bonds Principal | Interest |
|---|---|---|
| 2018 | $ 780,000 | $ 323,741 |
| 2019 | 870,000 | 410,691 |
| 2020 | 920,000 | 384,347 |
| 2021 | 1,005,000 | 354,879 |
| 2022 | 985,000 | 323,968 |
| 2023 - 2027 | 5,390,000 | 1,155,806 |
| 2028 - 2031 | 4,930,000 | 302,850 |
| Total | $ 14,880,000 | $ 3,256,282 |

On December 27, 2017, the County issued $9,380,000 of general obligation refunding bonds to advance refund $4,045,000 of the 2009C General Obligation Jail Bonds and $5,220,000 of the 2010B General Obligation Jail Bonds. The proceeds, along with other resources, were placed with an escrow agent to purchase U.S. Treasury State and Local Government Series securities. The securities and earnings in the escrow account will generate resources for all future debt service payments of $9,265,000 of general obligation bonds. As a result, the refunded bonds are considered to be defeased, and the liability has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by $733,788. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments and resulted in an economic gain of $687,174.

2. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Bonds payable | | | | | |
| 2009B G.O. Capital Improvement Plan Bonds | $ 1,125,000 | $ - | $ 445,000 | $ 680,000 | $ 465,000 |
| 2009C G.O. Jail Bonds | 7,250,000 | - | 4,045,000 | 3,205,000 | - |
| 2010A G.O. Capital Improvement Plan Bonds | 1,785,000 | - | 170,000 | 1,615,000 | 315,000 |
| 2010B G.O. Jail Bonds | 5,220,000 | - | 5,220,000 | - | - |
| 2017A G.O. Jail Bonds | - | 9,380,000 | - | 9,380,000 | - |
| Premium on bonds | 48,108 | 523,052 | 25,225 | 545,935 | - |
| Less: discount on bonds | (31,181) | - | (21,075) | (10,106) | - |
| Total bonds payable | $ 15,396,927 | $ 9,903,052 | $ 9,884,150 | $ 15,415,829 | $ 780,000 |
| Loans payable | 115,200 | - | 10,588 | 104,612 | 10,726 |
| Compensated absences | 1,158,635 | 903,866 | 920,887 | 1,141,614 | 102,745 |
| Long-Term Liabilities | $ 16,670,762 | $ 10,806,918 | $ 10,815,625 | $ 16,662,055 | $ 893,471 |

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

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, 2017.

2. Detailed Notes on All Funds

D. Deferred Outflows/Inflows of Resources (Continued)

2. Deferred Inflows of Resources

As of December 31, 2017, there were various components of unavailable revenue for the governmental funds as follows:

| | Unavailable Revenue |
|---|---|
| Delinquent property taxes | $ 111,747 |
| Intergovernmental | 3,642,953 |
| Other | 192,144 |
| Total Governmental Funds | $ 3,946,844 |

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. 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 Public Employees Police and Fire Plan, and the Local Government Correctional Service Retirement Plan (the Public Employees 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.

The General Employees Retirement 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 Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees 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 5 years and increasing 10 percent for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years and increasing 5 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 Public Employees 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 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

2. 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 Retirement Plan and Public Employees Police and Fire Plan benefit recipients receive a future annual 1.0 percent for the post-retirement benefit increase, while Public Employees Correctional Plan benefit recipients receive 2.5 percent. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, if the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 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 1.0 percent.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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 five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated and Basic 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 Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. Minneapolis Employees Retirement Fund members have an annuity accrual rate of 2.0 percent of average salary for each of the first ten years of service and 2.5 percent for each remaining year. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For General Employees Retirement 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 Public Employees Police and Fire Plan and Public Employees 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.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

3. 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 Retirement Plan Basic members, Coordinated members, and Minneapolis Employees Retirement Fund members were required to contribute 9.10 percent, 6.50 percent, and 9.75 percent, respectively, of their annual covered salary in 2017. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2017. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2017.

In 2017, the County was required to contribute the following percentages of annual covered salary:

| | |
|---|---|
| General Employees Retirement Plan | |
| Basic Plan members | 11.78% |
| Coordinated Plan members | 7.50 |
| Minneapolis Employees Retirement Fund members | 9.75 |
| Public Employees Police and Fire Plan | 16.20 |
| Public Employees Correctional Plan | 8.75 |

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

The County's contributions for the year ended December 31, 2017, to the pension plans were:

| | | |
|---|---|---|
| General Employees Retirement Plan | $ | 475,785 |
| Public Employees Police and Fire Plan | | 161,164 |
| Public Employees Correctional Plan | | 86,822 |

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

3. Pension Plans and Other Postemployment Benefits

   A. Defined Benefit Pension Plans (Continued)

      4. Pension Costs

         General Employees Retirement Plan

         At December 31, 2017, the County reported a liability of $6,083,889 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.0953 percent. It was 0.1007 percent measured as of June 30, 2016. The County recognized pension expense of $768,723 for its proportionate share of the General Employees Retirement Plan's pension expense.

         The County also recognized $2,210 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 Retirement Plan, which qualifies as a special funding situation. Legislation required the State of Minnesota to contribute $6 million to the General Employees Retirement Plan for the fiscal year ended June 30, 2017.

| | | |
|---|---|---|
| The County's proportionate share of the net pension liability | $ | 6,083,889 |
| State of Minnesota's proportionate share of the net pension liability associated with the County | | 76,526 |
| Total | $ | 6,160,415 |

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

The County reported its proportionate share of the General Employees Retirement 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 | $ 200,506 | $ 409,346 |
| Changes in actuarial assumptions | 1,067,290 | 609,910 |
| Difference between projected and actual investment earnings | 88,156 | - |
| Changes in proportion | 41,460 | 449,241 |
| Contributions paid to PERA subsequent to the measurement date | 233,303 | - |
| Total | $ 1,630,715 | $ 1,468,497 |

The $233,303 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, 2018. 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 |
|---|---|
| 2018 | $ 96,135 |
| 2019 | 300,016 |
| 2020 | (208,987) |
| 2021 | (258,249) |

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Police and Fire Plan

At December 31, 2017, the County reported a liability of $1,309,615 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.097 percent. It was 0.104 percent measured as of June 30, 2016. The County recognized pension expense of $321,383 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized $8,730 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 Public Employees 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 Public Employees Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 30,145 | $ 370,954 |
| Changes in actuarial assumptions | 1,837,576 | 1,859,329 |
| Difference between projected and actual investment earnings | 45,312 | - |
| Changes in proportion | 30,299 | 244,903 |
| Contributions paid to PERA subsequent to the measurement date | 83,576 | - |
| Total | $ 2,026,908 | $ 2,475,186 |

The $83,576 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, 2018. 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 |
|---|---|
| 2018 | $ 14,993 |
| 2019 | 14,993 |
| 2020 | (34,502) |
| 2021 | (114,680) |
| 2022 | (412,658) |

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Plan

At December 31, 2017, the County reported a liability of $1,396,505 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.49 percent. It was 0.45 percent measured as of June 30, 2016. The County recognized pension expense of $534,386 for its proportionate share of the Public Employees Correctional Plan's pension expense.

The County reported its proportionate share of the Public Employees 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 | $ 857 | $ 21,405 |
| Changes in actuarial assumptions | 698,247 | 243,089 |
| Difference between projected and actual investment earnings | - | 21,887 |
| Changes in proportion | 111,518 | - |
| Contributions paid to PERA subsequent to the measurement date | 44,569 | - |
| Total | $ 855,191 | $ 286,381 |

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

The $44,569 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, 2018. 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 |
|---|---|
| 2018 | $ 303,694 |
| 2019 | 311,802 |
| 2020 | (52,379) |
| 2021 | (38,876) |

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2017, was $1,624,492.

5. Actuarial Assumptions

The total pension liability in the June 30, 2017, 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 |

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent through 2044 and 2064, respectively, and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for the Public Employees Correctional Plan.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Retirement Plan was dated June 30, 2015. The experience study for the Public Employees Police and Fire Plan was dated August 30, 2016. The experience study for the Public Employees Correctional Plan was dated February 2012.

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:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Domestic stocks | 39% | 5.10% |
| International stocks | 19 | 5.30 |
| Bonds | 20 | 0.75 |
| Alternative assets | 20 | 5.90 |
| Cash | 2 | 0.00 |

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2017, which remained consistent with 2016. 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 Retirement Plan and the Public Employees Police and Fire 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.

In the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2061. Beginning in fiscal year ended June 30, 2062, when projected benefit payments exceed the Plan's projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 3.56 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.96 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits to the point of asset depletion and 3.56 percent thereafter.

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2017:

General Employees Retirement Plan

- The Combined Service Annuity (CSA) loads were changed from 0.8 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 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

General Employees Retirement Plan (Continued)

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21,000,000 in calendar years 2017 and 2018 and returns to $31,000,000 through calendar year 2031. The state's required contribution is $16,000,000 in PERA's fiscal years 2018 and 2019 and returns to $6,000,000 annually through calendar year 2031.

Public Employees Police and Fire Plan

- 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 2.0 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.

- The assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

Public Employees Police and Fire Plan (Continued)

- 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 1.0 percent for all years to 1.0 percent per year through 2064 and 2.5 percent thereafter.

- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

Public Employees Correctional Plan

- 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 1.0 percent for non-vested members.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

Public Employees Correctional Plan (Continued)

- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

8. 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 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

| | Proportionate Share of the | | | | | |
|---|---|---|---|---|---|---|
| | General Employees Retirement Plan | | Public Employees Police and Fire Plan | | Public Employees Correctional Plan | |
| | Discount Rate | Net Pension Liability | Discount Rate | Net Pension Liability | Discount Rate | Net Pension Liability |
| 1% Decrease | 6.50% | $ 9,436,564 | 6.50% | $ 2,466,388 | 4.96% | $ 2,301,265 |
| Current | 7.50 | 6,083,889 | 7.50 | 1,309,615 | 5.96 | 1,396,505 |
| 1% Increase | 8.50 | 3,339,116 | 8.50 | 354,636 | 6.96 | 690,327 |

9. 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; 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.

B. Defined Contribution Plan

One employee and four 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

3. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

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.

Total contributions by dollar amount and percentage of covered payroll made by Houston County during the year ended December 31, 2017, were:

| | Employee | Employer |
|---|---|---|
| Contribution amount | $ 9,722 | $ 9,722 |
| Percentage of covered payroll | 5% | 5% |

C. Other Postemployment Benefits (OPEB)

Plan Description

The County provides health insurance benefits for certain retired employees under a single-employer, self-insured health care plan, financed and administered by the Southeast Service Cooperative and Houston County. Blue Cross and Blue Shield of Minnesota (BCBSM), under contract with the Southeast Service Cooperative, is the Claims Administrator. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Active employees, who retire from the County when eligible to receive a retirement benefit from PERA (or 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.

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Plan Description (Continued)

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 was one retiree receiving health benefits from the County's health plan.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for 2017, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan:

| | |
|---|---|
| ARC | $ 57,395 |
| Interest on net OPEB obligations | 14,810 |
| Adjustment to ARC | (22,614) |
| Annual OPEB cost | $ 49,591 |
| Contribution during the year | (23,849) |
| Increase in net OPEB obligation | $ 25,742 |
| Net OPEB - Beginning of Year | 423,138 |
| Net OPEB - End of Year | $ 448,880 |

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for the years ended December 31, 2015, 2016, and 2017, were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Annual Employer Contribution | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| December 31, 2015 | $ 77,753 | $ 35,014 | 45.0% | $ 396,386 |
| December 31, 2016 | 76,700 | 49,948 | 65.1 | 423,138 |
| December 31, 2017 | 49,591 | 23,849 | 48.1 | 448,880 |

OPEB obligations are generally liquidated by the General Fund, the Road and Bridge Special Revenue Fund, and the Social Services Special Revenue Fund.

Funded Status

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

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded Actuarial Accrued Liability (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| January 1, 2017 | $ - | $ 417,765 | $ 417,765 | 0.0 % | $ 7,809,790 | 5.35% |

Actuarial Methods and Assumptions

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

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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

In the January 1, 2017, actuarial valuation, the Projected Unit Credit Actuarial Method was used. The actuarial assumptions included a 3.5 percent discount rate (net of expenses), including an inflation assumption of 2.5 percent and an annual health care cost rate of 6.5 percent initially, reduced incrementally to an ultimate rate of five percent after six years. The initial unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30-year period beginning in 2008.

4. Summary of Significant Contingencies and Other Items

A. 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 2017 and 2018. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

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

B. Contingent Liabilities

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer the Agricultural Best Management Loan Program to individuals to implement projects that prevent or mitigate nonpoint source water pollution. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2017.

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

4. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

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 for the Joint Powers Board. During the year, Houston County made no payments to the joint powers.

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

4. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

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 $31,941 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 $74,936 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 $200 to the Cooperative.

The Workforce Development provides various job training services to several counties. During the year, Houston County paid $75,150 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 $56,558 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 $126,944 to the MCCC.

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

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.

The financial activities of the Board are accounted for by Olmsted County as the fiscal agent. During 2017, 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 SEMVCET. During 2017, Houston County paid $7,000 to the SEMVCET.

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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 2017, Houston County provided no funding. In the event of withdrawal from the Collaborative, the withdrawing party shall give a 30-day notice. The withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of termination shall be distributed by the governing board.

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

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

# REQUIRED SUPPLEMENTARY INFORMATION

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# HOUSTON COUNTY
# CALEDONIA, MINNESOTA

*EXHIBIT A-1*

## BUDGETARY COMPARISON SCHEDULE
## GENERAL FUND
## DECEMBER 31, 2017

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | $ 7,106,317 | $ 7,199,175 | $ 7,179,317 | $ (19,858) |
| Licenses and permits | 64,780 | 64,955 | 78,134 | 13,179 |
| Intergovernmental | 2,466,628 | 2,766,206 | 2,915,299 | 149,093 |
| Charges for services | 2,061,360 | 1,937,160 | 1,879,452 | (57,708) |
| Fines and forfeits | 8,000 | 8,000 | 22,980 | 14,980 |
| Gifts and contributions | 3,000 | 3,000 | - | (3,000) |
| Investment earnings | 142,900 | 178,900 | 127,152 | (51,748) |
| Miscellaneous | 235,038 | 231,980 | 242,431 | 10,451 |
| **Total Revenues** | **$ 12,088,023** | **$ 12,389,376** | **$ 12,444,765** | **$ 55,389** |
| **Expenditures** | | | | |
| **Current** | | | | |
| **General government** | | | | |
| Commissioners | $ 269,016 | $ 230,874 | $ 178,156 | $ 52,718 |
| Courts | 70,500 | 85,500 | 90,082 | (4,582) |
| County auditor | 231,813 | 235,212 | 214,796 | 20,416 |
| Motor vehicle/license bureau | 105,744 | 105,744 | 111,238 | (5,494) |
| County treasurer | 172,417 | 172,709 | 167,857 | 4,852 |
| County assessor | 381,954 | 384,588 | 369,707 | 14,881 |
| Elections | 38,875 | 38,875 | 8,871 | 30,004 |
| Finance | 206,119 | 206,119 | 153,499 | 52,620 |
| Data processing | 546,542 | 555,228 | 538,498 | 16,730 |
| Personnel | 237,513 | 243,003 | 230,276 | 12,727 |
| Attorney | 577,396 | 577,717 | 587,704 | (9,987) |
| Recorder | 258,645 | 281,345 | 274,344 | 7,001 |
| Surveyor | 179,822 | 181,562 | 176,606 | 4,956 |
| Planning and zoning | 220,712 | 325,956 | 295,858 | 30,098 |
| Buildings and plant | 563,201 | 573,085 | 561,998 | 11,087 |
| Veterans service | 104,402 | 104,402 | 97,645 | 6,757 |
| GIS | 50,265 | 50,265 | 58,939 | (8,674) |
| Other general government | 364,748 | 357,723 | 274,214 | 83,509 |
| **Total general government** | **$ 4,579,684** | **$ 4,709,907** | **$ 4,390,288** | **$ 319,619** |

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

# HOUSTON COUNTY
# CALEDONIA, MINNESOTA

***EXHIBIT A-1***
***(Continued)***

**BUDGETARY COMPARISON SCHEDULE**
**GENERAL FUND**
**DECEMBER 31, 2017**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Expenditures** | | | | |
| **Current (Continued)** | | | | |
| **Public safety** | | | | |
| Sheriff | $ 1,711,329 | $ 1,721,564 | $ 1,721,344 | $ 220 |
| Boat and water safety | 11,950 | 32,780 | 32,720 | 60 |
| Emergency services | 99,850 | 99,850 | 49,648 | 50,202 |
| Coroner | 54,988 | 54,988 | 54,988 | - |
| E-911 system | 185,268 | 185,268 | 125,242 | 60,026 |
| County jail | 1,790,069 | 1,787,198 | 1,715,453 | 71,745 |
| Community corrections | 292,316 | 292,316 | 265,775 | 26,541 |
| **Total public safety** | **$ 4,145,770** | **$ 4,173,964** | **$ 3,965,170** | **$ 208,794** |
| **Sanitation** | | | | |
| Solid waste | $ 758,960 | $ 754,490 | $ 801,832 | $ (47,342) |
| Recycling | 278,677 | 274,206 | 231,818 | 42,388 |
| **Total sanitation** | **$ 1,037,637** | **$ 1,028,696** | **$ 1,033,650** | **$ (4,954)** |
| **Health** | | | | |
| Nursing services | $ 1,618,666 | $ 1,618,666 | $ 1,398,423 | $ 220,243 |
| Transportation | 11,500 | 11,500 | 11,500 | - |
| Health center (waivered services) | 5,500 | 5,500 | 5,500 | - |
| **Total health** | **$ 1,635,666** | **$ 1,635,666** | **$ 1,415,423** | **$ 220,243** |
| **Culture and recreation** | | | | |
| Historical society | $ 42,500 | $ 42,500 | $ 42,500 | $ - |
| Parks | 194,809 | 209,809 | 65,841 | 143,968 |
| County/regional library | 151,144 | 151,144 | 151,080 | 64 |
| Other culture and recreation | 120,000 | 100,000 | 96,107 | 3,893 |
| **Total culture and recreation** | **$ 508,453** | **$ 503,453** | **$ 355,528** | **$ 147,925** |

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

*EXHIBIT A-1*
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE**
**GENERAL FUND**
**DECEMBER 31, 2017**

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance with Final Budget |
|---|---|---|---|---|
| **Expenditures** | | | | |
| **Current (Continued)** | | | | |
| **Conservation of natural resources** | | | | |
| County extension | $ 174,466 | $ 173,366 | $ 173,740 | $ (374) |
| Soil and water conservation | 129,000 | 129,000 | 129,000 | - |
| Agriculture society/County fair | 20,000 | 20,000 | 20,000 | - |
| Water planning | 22,672 | 22,672 | 23,168 | (496) |
| **Total conservation of natural resources** | **$ 346,138** | **$ 345,038** | **$ 345,908** | **$ (870)** |
| **Economic development** | | | | |
| Community development | $ 98,270 | $ 82,884 | $ 154,571 | $ (71,687) |
| Airport | 55,823 | 55,823 | 207,138 | (151,315) |
| Other economic development | 9,352 | 9,352 | 9,351 | 1 |
| **Total economic development** | **$ 163,445** | **$ 148,059** | **$ 371,060** | **$ (223,001)** |
| **Debt service** | | | | |
| Principal | $ - | $ - | $ 10,588 | $ (10,588) |
| Interest | - | - | 2,132 | (2,132) |
| **Total debt service** | **$ -** | **$ -** | **$ 12,720** | **$ (12,720)** |
| **Total Expenditures** | **$ 12,416,793** | **$ 12,544,783** | **$ 11,889,747** | **$ 655,036** |
| **Net Change in Fund Balance** | **$ (328,770)** | **$ (155,407)** | **$ 555,018** | **$ 710,425** |
| **Fund Balance - January 1** | **6,004,507** | **6,004,507** | **6,004,507** | **-** |
| **Fund Balance - December 31** | **$ 5,675,737** | **$ 5,849,100** | **$ 6,559,525** | **$ 710,425** |

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

## HOUSTON COUNTY
## CALEDONIA, MINNESOTA

*EXHIBIT A-2*

### BUDGETARY COMPARISON SCHEDULE
### ROAD AND BRIDGE SPECIAL REVENUE FUND
### DECEMBER 31, 2017

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance with Final Budget |
|---|---|---|---|---|
| **Revenues** | | | | |
| Taxes | $ 2,293,434 | $ 2,293,434 | $ 2,271,430 | $ (22,004) |
| Licenses and permits | 5,000 | 5,255 | 5,725 | 470 |
| Intergovernmental | 4,774,037 | 3,748,512 | 4,338,983 | 590,471 |
| Charges for services | 242,000 | 250,940 | 270,971 | 20,031 |
| Investment earnings | 14,000 | 18,000 | 17,983 | (17) |
| Miscellaneous | 8,804 | 11,097 | 11,095 | (2) |
| **Total Revenues** | **$ 7,337,275** | **$ 6,327,238** | **$ 6,916,187** | **$ 588,949** |
| **Expenditures** | | | | |
| **Current** | | | | |
| **Transportation** | | | | |
| Administration | $ 278,712 | $ 275,266 | $ 273,339 | $ 1,927 |
| Maintenance | 2,714,281 | 2,983,247 | 2,944,964 | 38,283 |
| Construction | 3,068,535 | 1,907,513 | 1,941,856 | (34,343) |
| Equipment maintenance and shop | 1,074,783 | 1,128,776 | 1,036,989 | 91,787 |
| **Total transportation** | **$ 7,136,311** | **$ 6,294,802** | **$ 6,197,148** | **$ 97,654** |
| **Intergovernmental** | | | | |
| Highways and streets | 250,198 | 250,198 | 250,198 | - |
| **Total Expenditures** | **$ 7,386,509** | **$ 6,545,000** | **$ 6,447,346** | **$ 97,654** |
| **Excess of Revenues Over (Under) Expenditures** | **$ (49,234)** | **$ (217,762)** | **$ 468,841** | **$ 686,603** |
| **Other Financing Sources (Uses)** | | | | |
| Proceeds from sale of capital assets | 13,500 | 15,860 | 15,863 | 3 |
| **Net Change in Fund Balance** | **$ (35,734)** | **$ (201,902)** | **$ 484,704** | **$ 686,606** |
| **Fund Balance - January 1** | **8,967,067** | **8,967,067** | **8,967,067** | **-** |
| **Increase (decrease) in inventories** | **-** | **-** | **37,694** | **37,694** |
| **Fund Balance - December 31** | **$ 8,931,333** | **$ 8,765,165** | **$ 9,489,465** | **$ 724,300** |

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

*EXHIBIT A-3*

## BUDGETARY COMPARISON SCHEDULE
## SOCIAL SERVICES SPECIAL REVENUE FUND
## DECEMBER 31, 2017

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | $ 1,257,466 | $ 1,257,466 | $ 1,246,129 | $ (11,337) |
| Intergovernmental | 2,875,316 | 2,875,316 | 3,051,450 | 176,134 |
| Charges for services | 221,500 | 221,500 | 305,089 | 83,589 |
| Investment earnings | 10,000 | 10,000 | 7,033 | (2,967) |
| Miscellaneous | 261,700 | 261,700 | 332,466 | 70,766 |
| **Total Revenues** | **$ 4,625,982** | **$ 4,625,982** | **$ 4,942,167** | **$ 316,185** |
| **Expenditures** | | | | |
| **Current** | | | | |
| **Human services** | | | | |
| Income maintenance | $ 1,812,669 | $ 1,812,669 | $ 1,890,314 | $ (77,645) |
| Social services | 2,834,820 | 2,834,820 | 3,363,515 | (528,695) |
| **Total Expenditures** | **$ 4,647,489** | **$ 4,647,489** | **$ 5,253,829** | **$ (606,340)** |
| **Net Change in Fund Balance** | **$ (21,507)** | **$ (21,507)** | **$ (311,662)** | **$ (290,155)** |
| **Fund Balance - January 1** | **1,947,333** | **1,947,333** | **1,947,333** | **-** |
| **Fund Balance - December 31** | **$ 1,925,826** | **$ 1,925,826** | **$ 1,635,671** | **$ (290,155)** |

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

*EXHIBIT A-4*

**SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2017**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded Actuarial Accrued Liability (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a)/c) |
|---|---|---|---|---|---|---|
| January 1, 2011 | $ - | $ 815,921 | $ 815,921 | 0.00% | $ 6,937,733 | 11.76% |
| January 1, 2014 | - | 591,403 | 591,403 | 0.00 | 6,566,800 | 9.01 |
| January 1, 2017 | - | 417,765 | 417,765 | 0.00 | 7,809,790 | 5.35 |

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

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

***EXHIBIT A-5***

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY**
**PERA GENERAL EMPLOYEES RETIREMENT PLAN**
**DECEMBER 31, 2017**

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | State's Proportionate Share of the Net Pension Liability Associated with Houston County (b) | Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b) | Covered Payroll (c) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|---|---|
| 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

*EXHIBIT A-6*

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2017**

| Year Ending | Statutorily Required Contributions (a) | Actual Contributions in Relation to Statutorily Required Contributions (b) | Contribution (Deficiency) Excess (b - a) | Covered Payroll (c) | Actual Contributions as a Percentage of Covered Payroll (b/c) |
|---|---|---|---|---|---|
| 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, 2017

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 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, 2017

| Year Ending | Statutorily Required Contributions (a) | Actual Contributions in Relation to Statutorily Required Contributions (b) | Contribution (Deficiency) Excess (b - a) | Covered Payroll (c) | Actual Contributions as a Percentage of Covered Payroll (b/c) |
|---|---|---|---|---|---|
| 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.

The notes to the required supplementary information are an integral part of these schedules.

## HOUSTON COUNTY
## CALEDONIA, MINNESOTA

*EXHIBIT A-9*

### SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
### PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
### DECEMBER 31, 2017

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 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 CORRECTIONAL PLAN
### DECEMBER 31, 2017

| Year Ending | Statutorily Required Contributions (a) | Actual Contributions in Relation to Statutorily Required Contributions (b) | Contribution (Deficiency) Excess (b - a) | Covered Payroll (c) | Actual Contributions as a Percentage of Covered Payroll (b/c) |
|---|---|---|---|---|---|
| 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.

The notes to the required supplementary information are an integral part of these schedules.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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 and Road and Bridge Special Revenue Fund.

2. Excess of Expenditures Over Budget

   The Social Services Special Revenue Fund expenditures of $5,253,829 exceeded the final budget of $4,647,489 by $606,430 due to increased mental health regional treatment facility and CREST costs.

3. Other Postemployment Benefits

   Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the actuarial accrued liability for postemployment benefits is zero.

   See Note 3.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

4. 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

2017

- The Combined Service Annuity (CSA) loads were changed from 0.8 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 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21,000,000 in calendar years 2017 and 2018 and returns to $31,000,000 through calendar year 2031. The state's required contribution is $16,000,000 in PERA's fiscal years 2018 and 2019 and returns to $6,000,000 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.

4. Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan

2016 (Continued)

- 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

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 2.0 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.

- The assumed termination rates were decreased to 3.0 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.

4. Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Police and Fire Plan

2017 (Continued)

- 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 1.0 percent for all years to 1.0 percent per year through 2064 and 2.5 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.

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

Public Employees Correctional Plan

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 1.0 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.

- 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, 2017

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | $ 1,331,876 | $ 1,331,876 | $ 1,337,295 | $ 5,419 |
| Intergovernmental | 53,346 | 53,346 | 55,804 | 2,458 |
| **Total Revenues** | **$ 1,385,222** | **$ 1,385,222** | **$ 1,393,099** | **$ 7,877** |
| **Expenditures** | | | | |
| **Debt service** | | | | |
| Principal | $ 819,000 | $ 819,000 | $ 615,000 | $ 204,000 |
| Interest | 566,222 | 566,222 | 547,762 | 18,460 |
| Bond issuance costs | - | - | 86,264 | (86,264) |
| Administrative (fiscal) charges | - | - | 5,100 | (5,100) |
| **Total Expenditures** | **$ 1,385,222** | **$ 1,385,222** | **$ 1,254,126** | **$ 131,096** |
| **Excess of Revenues Over (Under) Expenditures** | **$ -** | **$ -** | **$ 138,973** | **$ 138,973** |
| **Other Financing Sources (Uses)** | | | | |
| Refunding bonds issued | $ - | $ - | $ 9,380,000 | $ 9,380,000 |
| Payment to refund bonds (escrow) | - | - | (9,998,788) | (9,998,788) |
| Premium on bonds issued | - | - | 523,052 | 523,052 |
| **Total Other Financing Sources (Uses)** | **$ -** | **$ -** | **$ (95,736)** | **$ (95,736)** |
| **Net Change in Fund Balance** | **$ -** | **$ -** | **$ 43,237** | **$ 43,237** |
| **Fund Balance - January 1** | **1,140,832** | **1,140,832** | **1,140,832** | **-** |
| **Fund Balance - December 31** | **$ 1,140,832** | **$ 1,140,832** | **$ 1,184,069** | **$ 43,237** |

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# FIDUCIARY FUNDS

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## AGENCY FUNDS

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

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

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

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

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

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

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

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

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

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

*EXHIBIT C-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**
**ALL AGENCY FUNDS**
**DECEMBER 31, 2017**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|---|---|---|---|---|
| **CROOKED CREEK WATERSHED** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | $ 486 | $ 47,266 | 46,762 | $ 990 |
| **Liabilities** | | | | |
| Due to other governments | $ 486 | $ 47,266 | 46,762 | $ 990 |
| **HEALTH** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | $ 31,512 | $ 69,954 | $ 69,876 | $ 31,590 |
| **Liabilities** | | | | |
| Accounts payable | $ 31,512 | $ 69,954 | $ 69,876 | $ 31,590 |
| **REVOLVING** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | $ 52,302 | $ 4,189,824 | $ 4,175,780 | $ 66,346 |
| **Liabilities** | | | | |
| Due to other governments | $ 52,302 | $ 4,189,824 | $ 4,175,780 | $ 66,346 |

HOUSTON COUNTY
CALEDONIA, MINNESOTA

*EXHIBIT C-1*
*(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**
**ALL AGENCY FUNDS**
**DECEMBER 31, 2017**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|---|---|---|---|---|
| **SOIL AND WATER CONSERVATION** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | $ 678,891 | $ 789,889 | $ 630,289 | $ 838,491 |
| **Liabilities** | | | | |
| Due to other governments | $ 678,891 | $ 789,889 | $ 630,289 | $ 838,491 |
| **SCHOOL DISTRICTS** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | $ 132,007 | $ 6,472,969 | $ 6,424,074 | $ 180,902 |
| **Liabilities** | | | | |
| Due to other governments | $ 132,007 | $ 6,472,969 | $ 6,424,074 | $ 180,902 |
| **FAMILY COLLABORATIVE** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | $ 117,700 | $ 2,431 | $ 23,302 | $ 96,829 |
| **Liabilities** | | | | |
| Due to other governments | $ 117,700 | $ 2,431 | $ 23,302 | $ 96,829 |

HOUSTON COUNTY
CALEDONIA, MINNESOTA

*EXHIBIT C-1*
*(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**
**ALL AGENCY FUNDS**
**DECEMBER 31, 2017**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|---|---|---|---|---|
| **TAXES AND PENALTIES** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | **$ 107,880** | **$ 29,069,486** | **$ 28,893,383** | **$ 283,983** |
| **Liabilities** | | | | |
| Accounts payable | $ 107,880 | $ 6,814,870 | $ 6,638,767 | $ 283,983 |
| Due to other funds | - | 13,449,438 | 13,449,438 | - |
| Due to other governments | - | 8,805,178 | 8,805,178 | - |
| **Total Liabilities** | **$ 107,880** | **$ 29,069,486** | **$ 28,893,383** | **$ 283,983** |
| **TOWNS AND CITIES** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | **$ 123,722** | **$ 7,835,508** | **$ 7,773,425** | **$ 185,805** |
| **Liabilities** | | | | |
| Due to other governments | **$ 123,722** | **$ 7,835,508** | **$ 7,773,425** | **$ 185,805** |

HOUSTON COUNTY
CALEDONIA, MINNESOTA

*EXHIBIT C-1*
*(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**
**ALL AGENCY FUNDS**
**DECEMBER 31, 2017**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|---|---|---|---|---|
| **TOTAL ALL AGENCY FUNDS** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | **$ 1,244,500** | **$ 48,477,327** | **$ 48,036,891** | **$ 1,684,936** |
| **Liabilities** | | | | |
| Accounts payable | $ 139,392 | $ 6,884,824 | $ 6,708,643 | $ 315,573 |
| Due to other funds | - | 13,449,438 | 13,449,438 | - |
| Due to other governments | 1,105,108 | 28,143,065 | 27,878,810 | 1,369,363 |
| **Total Liabilities** | **$ 1,244,500** | **$ 48,477,327** | **$ 48,036,891** | **$ 1,684,936** |

# OTHER SCHEDULES

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## HOUSTON COUNTY
## CALEDONIA, MINNESOTA

*EXHIBIT D-1*

### SCHEDULE OF INTERGOVERNMENTAL REVENUE
### GOVERNMENTAL FUNDS
### DECEMBER 31, 2017

| | | |
|---|---|---|
| **Appropriations and Shared Revenue** | | |
| **State** | | |
| Highway users tax | $ | 3,368,369 |
| PERA rate reimbursement | | 23,836 |
| Disparity reduction aid | | 135,764 |
| Police aid | | 109,165 |
| County program aid | | 883,674 |
| Aquatic invasive species aid | | 26,705 |
| SCORE | | 68,711 |
| Riparian Protection Aid | | 51,871 |
| Market value credit - agricultural | | 330,760 |
| Enhanced 911 | | 92,829 |
| **Total appropriations and shared revenue** | **$** | **5,091,684** |
| **Reimbursement for Services** | | |
| **State** | | |
| Minnesota Department of Human Services | **$** | **631,615** |
| **Payments** | | |
| **Local** | | |
| Local - SHIP | $ | 1,200 |
| Local - MI energy | | 1,722 |
| Local - Collaborative Literacy | | 20,000 |
| Local - SE service coop | | 16,750 |
| Local - MOFAS | | 15,000 |
| Payments in lieu of taxes | | 352,114 |
| **Total payments** | **$** | **406,786** |
| **Grants** | | |
| **State** | | |
| Minnesota Department/Board of | | |
| Public Safety | $ | 135,718 |
| Health | | 272,046 |
| Employment and Economic Development | | 6,028 |
| Natural Resources | | 101,201 |
| Historical Society | | 15,244 |
| Human Services | | 1,285,529 |
| Corrections | | 52,698 |
| Transportation | | 226,380 |
| Water and Soil Resources | | 49,009 |
| Veterans Affairs | | 10,000 |
| Pollution Control Agency | | 47,482 |
| Peace Officer Standards and Training Board | | 4,133 |
| **Total state** | **$** | **2,205,468** |

## HOUSTON COUNTY
## CALEDONIA, MINNESOTA

*EXHIBIT D-1*
*(Continued)*

### SCHEDULE OF INTERGOVERNMENTAL REVENUE
### GOVERNMENTAL FUNDS
### DECEMBER 31, 2017

| | | |
|---|---|---|
| **Grants (Continued)** | | |
| **Federal** | | |
| Department of | | |
| Agriculture | $ | 205,662 |
| Transportation | | 136,094 |
| Education | | 2,416 |
| Health and Human Services | | 1,241,114 |
| Homeland Security | | 416,288 |
| Environmental Protection Agency | | 24,409 |
| **Total federal** | **$** | **2,025,983** |
| **Total state and federal grants** | **$** | **4,231,451** |
| **Total Intergovernmental Revenue** | **$** | **10,361,536** |

HOUSTON COUNTY
CALEDONIA, MINNESOTA

*EXHIBIT D-2*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**DECEMBER 31, 2017**

| Federal Grantor<br>Pass-Through Agency<br>Program or Cluster Title | Federal CFDA Number | Pass-Through Gramt Numbers | Expenditures |
|---|---|---|---|
| **U.S. Department of Agriculture** | | | |
| Passed Through Minnesota Department of Health | | | |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | 32573 | $ 108,720 |
| Passed Through Minnesota Department of Human Services | | | |
| SNAP Cluster | | | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | 172MN101S2514 | 136,186 |
| **Total U.S. Department of Agriculture** | | | **$ 244,906** |
| **U.S. Department of Transportation** | | | |
| Passed Through Minnesota Department of Transportation | | | |
| Airport Improvement Program | 20.106 | 3-27-0016-05-13 | $ 149,594 |
| Passed Through Minnesota Department of Public Safety | | | |
| Highway Safety Cluster | | | |
| State and Community Highway Safety | 20.600 | A-ENFRC17-2017-HOUSTONSO-00017 | 2,289 |
| National Priority Safety Programs | 20.616 | A-ENFRC17-2017-HOUSTONSO-00017 | 3,100 |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 20.608 | A-ENFRC17-2017-HOUSTONSO-00017 | 4,366 |
| **Total U.S. Department of Transportation** | | | **$ 159,349** |
| **U.S. Environmental Protection Agency** | | | |
| Passed Through Southeast Minnesota Water Resources Board | | | |
| Nonpoint Source Implementation Grants | 66.460 | 666693 | **$ 24,409** |
| **U.S. Department of Education** | | | |
| Passed Through Minnesota Department of Health | | | |
| Special Education - Grants for Infants and Families | 84.181 | 75371 | **$ 1,933** |
| **U.S. Department of Health and Human Services** | | | |
| Passed Through Minnesota Department of Health | | | |
| Public Health Emergency Preparedness | 93.069 | NU90TP921911-01-00 | $ 12,386 |
| Universal Newborn Hearing Screening | 93.251 | 12-700-00072 | 863 |
| Immunization Cooperative Agreements | 93.268 | 12-700-00072 | 863 |
| TANF Cluster | | | |
| Temporary Assistance for Needy Families | 93.558 | 12-700-00072 | 33,291 |
| (Total Temporary Assistance for Needy Families 93.558 $144,863) | | | |
| Maternal and Child Health Services Block Grant to the States | 93.994 | 12-700-00072 | 23,478 |

*EXHIBIT D-2*
*(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**DECEMBER 31, 2017**

| Federal Grantor<br>Pass-Through Agency<br>Program or Cluster Title | Federal<br>CFDA<br>Number | Pass-Through<br>Gramt Numbers | Expenditures |
|---|---|---|---|
| **U.S. Department of Health and Human Services (Continued)** | | | |
| Passed Through Minnesota Department of Human Services | | | |
| Promoting Safe and Stable Families | 93.556 | G-1601MNFPSS | 13,477 |
| TANF Cluster | | | |
| Temporary Assistance for Needy Families | 93.558 | 1601MNTANF | 111,572 |
| (Total Temporary Assistance for Needy Families 93.558 $144,863) | | | |
| Child Support Enforcement | 93.563 | 1704MNCSES | 282,216 |
| Refugee and Entrant Assistance - State Administered Programs | 93.566 | 1701MNRCMA | 318 |
| CCDF Cluster | | | |
| Child Care and Development Block Grant | 93.575 | G1701MNCCDF | 4,619 |
| Community-Based Child Abuse Prevention Grants | 93.590 | G-1502MNFRPG | 4,489 |
| Stephanie Tubbs Jones Child Welfare Services Program | 93.645 | G-1601MNCWSS | 4,065 |
| Foster Care - Title IV-E | 93.658 | 1701MNFOST | 182,664 |
| Social Services Block Grant | 93.667 | G-1701MNSOSR | 90,809 |
| Chafee Foster Care Independence Program | 93.674 | G-1601MNCILP | 2,374 |
| Children's Health Insurance Program | 93.767 | 05-1705MN0301 | 178 |
| Medicaid Cluster | | | |
| Medical Assistance Program | 93.778 | 05-1705MN5ADM | 531,490 |
| Medical Assistance Program | 93.778 | 05-1705MN5MAP | 2,950 |
| (Total Medical Assistance Program 93.778 $534,440) | | | |
| **Total U.S. Department of Health and Human Services** | | | **$ 1,302,102** |
| **U.S. Department of Homeland Security** | | | |
| Passed Through Minnesota Department of Natural Resources | | | |
| Boating Safety Financial Assistance | 97.012 | HOUSTON FBG-021017 | $ 24,118 |
| Passed Through Minnesota Department of Public Safety | | | |
| Emergency Management Performance Grants | 97.042 | F-EMPG-2017-HOUSTONCO-2419 | 18,709 |
| **Total U.S. Department of Homeland Security** | | | **$ 42,827** |
| **Total Federal Awards** | | | **$ 1,775,526** |

The County did not pass through any federal awards to subrecipients during the year ended December 31, 2017.

**Totals by Cluster**

| | |
|---|---|
| Total expenditures for SNAP Cluster | $ 136,186 |
| Total expenditures for Highway Safety Cluster | 5,389 |
| Total expenditures for TANF Cluster | 144,863 |
| Total expenditures for CCDF Cluster | 4,619 |
| Total expenditures for Medicaid Cluster | 534,440 |

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017. 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 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Reconciliation to Schedule of Intergovernmental Revenue

| | |
|---|---|
| Federal grant revenue per Schedule of Intergovernmental Revenue (Exhibit D-1) | $ 2,025,983 |
| Unavailable in 2016, recognized as revenue in 2017 | |
| Special Education - Grants for Infants and Families | (483) |
| Emergency Management Performance Grants | (960) |
| Temporary Assistance for Needy Families | (20,191) |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) | (513,546) |
| Promoting Safe and Stable Families | (194) |
| Child Care Development Block Grant | (474) |
| Stephanie Tubbs Jones Child Welfare Services Program | (128) |
| Chafee Foster Care Independence Program | (1,665) |
| Block Grants for Community Mental Health Services | (2,272) |
| Grants received more than 60 days after year-end, unavailable in 2017 | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 36,291 |
| Child Support Enforcement | 53,911 |
| WIC 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 |
| Expenditures per Schedule of Expenditures of Federal Awards (Exhibit D-2) | $ 1,775,526 |

# Management and Compliance Section

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STATE OF MINNESOTA
OFFICE OF THE 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, 2017, 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 4, 2018.

## 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. However, material weaknesses may exist that have not been identified. 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 2013-001, 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 2017-002. 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.

**Other Matters**

Included in the Schedule of Findings and Questioned Costs is a management practices comment. We believe this recommendation to be of benefit to the County, and it is reported for that purpose.

**Houston County's Response to Findings**

Houston County's responses to the internal control, legal compliance, and management practices 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/Rebecca Otto* | */s/Greg Hierlinger* |
| REBECCA OTTO<br>STATE AUDITOR | GREG HIERLINGER, CPA<br>DEPUTY STATE AUDITOR |

September 4, 2018

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STATE OF MINNESOTA
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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, 2017. 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 with those requirements.

***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, 2017.

***Other Matters***
The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001. Our opinion on the major federal program is not modified with respect to this matter.

Houston County's response to the noncompliance finding identified in our audit is described in the accompanying Corrective Action Plan. Houston County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**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 identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001, that we consider to be a significant deficiency.

Houston County's response to the internal control over compliance finding identified in our audit is described in the accompanying Corrective Action Plan. Houston County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Purpose of This Report**

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

September 4, 2018

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

## 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 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 | 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**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS 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.

**View of Responsible Official:** Concur

Finding Number 2013-001

Workstation Security

**Criteria:** Controls in place over operations should be designed to properly protect both data and programs from unauthorized access.

**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.

**Context:** When a computer is left unattended while still logged on, someone may make changes to data or programs they may not be authorized to make. Such changes would appear to have been made by the person logged in. Several workstation settings could be changed to strengthen the security controls in place over operations.

**Effect:** The County's financial data and programs are vulnerable to unauthorized access.

**Cause:** The County indicated workstation security policies need to be updated.

**Recommendation:** We recommend the County strengthen its controls over workstation settings to protect both data and programs from unauthorized access.

**View of Responsible Official:** Concur

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

ITEM ARISING THIS YEAR

Finding Number 2017-001

Procurement, Suspension, and Debarment

**Program:** U.S. Department of Health and Human Services' Medicaid Cluster (CFDA No. 93.778); Award #05-1705MN5ADM, 2017

**Pass-Through Agency:** Minnesota Department of Human Services (DHS)

**Criteria:** Federal requirements prohibit non-federal agencies from contracting with or making subawards under covered transactions to parties that are suspended or debarred. The required verification process is described in 2 U.S. *Code of Federal Regulations* § 180.300. Prior to entering into the transaction, one of the following must be performed: checking SAM exclusions, collecting a certification, or adding a clause or condition to the covered transaction.

**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.

**Questioned Costs:** None.

**Context:** The County entered into one covered transaction as part of carrying out the federal program.

**Effect:** Compliance requirements for procurement, suspension, and debarment were not met.

**Cause:** The omission of the proper suspension and debarment language in the contract, or other procedures performed, was due to oversight.

**Recommendation:** We recommend the County verifies all of its contractors are not suspended or debarred from federally-funded contracts prior to awarding contracts.

**View of Responsible Official:** Concur

## IV. OTHER FINDINGS AND RECOMMENDATIONS

### A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding Number 2017-002

Prompt Payment of Invoices

**Criteria:** Pursuant to Minn. Stat. § 471.425, Houston County is required to make payment on a vendor invoice according to the terms of the contract, or within 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later. For bills paid after the time period set by contract or standard payment period, the government entity must calculate and pay interest as required.

**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.

**Context:** Payments not being made timely could also be an indicator of other problems, such as poor procedural controls, poor internal controls, or cash flow problems.

**Effect:** Making payment on invoices after 35 days of the completed delivery of the goods or services or receipt of the invoice, whichever is later, is in noncompliance with Minnesota law if interest is not calculated and paid.

**Cause:** The invoice was initially sent to the incorrect department, which caused a delay.

**Recommendation:** We recommend the County make payments on vendor invoices in accordance with Minn. Stat. § 471.425.

**View of Responsible Official:** Concur

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2001-002

Disaster Recovery Plan

**Criteria:** The County needs to provide for the continuance of several important applications processed by its computer system, including the preparation of payroll, the calculation of tax assessments and settlements, and the recording of receipts and disbursements. A disaster recovery plan should include, but not be limited to, the following:

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

- identification of the space to be used; and

- a schedule for developing and periodically reviewing and updating the plan.

**Condition:** While reviewing information technology controls and procedures, it was noted Houston County has an informal disaster recovery agreement with another county, but does not have a formal disaster recovery plan.

**Context:** A disaster recovery plan would give greater assurance that the County is prepared for a disaster or major computer breakdown.

**Effect:** In the event a disaster occurred, the County could experience a delay in providing services or reporting financial information to the public.

**Cause:** The County indicated they are aware of the issue and are working on documenting, testing, and implementing a plan.

**Recommendation:** We recommend the County continue to develop, implement, and test the disaster recovery plan. The Board should approve the formal plan, and all County employees should be familiar with the plan.

**View of Responsible Official:** Concur

## V. PREVIOUSLY REPORTED ITEMS RESOLVED

2015-003 Reporting (CFDA No. 93.778)
2015-004 Eligibility (CFDA No. 93.778)
2016-001 PERA Internal Controls
2016-002 Segregation of Duties - IFS- General Ledger System Security Controls
2016-003 Reporting - Accuracy (CFDA No. 93.778)

**HOUSTON COUNTY**
Historic Courthouse
304 South Marshall Street
Caledonia, Minnesota 55921

**REPRESENTATION OF HOUSTON COUNTY
CALEDONIA, MINNESOTA**

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017

**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:

12/31/2018

**Finding Number: 2013-001**
**Finding Title: Workstation Security**

Name of Contact Person Responsible for Corrective Action:

Andrew Milde, IT Director

Corrective Action Planned:

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.

Anticipated Completion Date:

12/31/2018

**Finding Number: 2017-001**
**Finding Title: Procurement, Suspension, and Debarment**
**Program: Medicaid Cluster (CFDA No. 93.778)**

Name of Contact Person Responsible for Corrective Action:

Carol Lapham, Finance Director

Corrective Action Planned:

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.

Anticipated Completion Date:

12/31/2018

**Finding Number: 2017-002**
**Finding Title: Prompt Payment of Invoices**

Name of Contact Person Responsible for Corrective Action:

Carol Lapham, Finance Director

Corrective Action Planned:

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.

Anticipated Completion Date:

12/31/2018

**Finding Number: 2001-002**
**Finding Title: Disaster Recovery Plan**

Name of Contact Person Responsible for Corrective Action:

Andrew Milde, IT Director
Carol Lapham, Finance Director

Corrective Action Planned:

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.

Anticipated Completion Date:

12/31/2018

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**REPRESENTATION OF HOUSTON COUNTY**
**CALEDONIA, MINNESOTA**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

**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:** 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:** Not Corrected. The group policy has been changed to require password entry to the workstation after 10 minutes of inactivity. In addition, the Computer User Policy will be updated to outline this setting and also direct staff to secure and lock their workstation when they are not in visual sight of their computer.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

**Finding Number: 2016-001**
**Finding Title: PERA Internal Controls**

**Summary of Condition:** During review of controls over reporting and payments to the Public Employees Retirement Association (PERA), it was noted that the individual preparing and submitting PERA withholdings reports is also the individual who makes payments to PERA.

**Summary of Corrective Action Previously Reported:** The County will evaluate the implementation of a review practice and procedure or will train an employee outside the payroll process to assume the responsibility for transmitting the contributions through the PERA ERIS system.

**Status:** Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

**Finding Number: 2016-002**
**Finding Title: Segregation of Duties – IFS- General Ledger System Security Controls**

**Summary of Condition:** During review of access to the general ledger, it was found that an accounting employee had been given the ability to modify access levels for all users of the system, including herself.

**Summary of Corrective Action Previously Reported:** The accounting employee has been updated to no longer have access to the County User Maintenance function of the IFS General Ledger System.

**Status:** Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

**Finding Number: 2015-003**
**Finding Title: Reporting**
**Program: Medicaid Cluster (CFDA No. 93.778)**

**Summary of Condition:** The two quarterly LCTS reports (DHS-3220) tested that were prepared and submitted by the Houston County Court Services Department and the Annual Spending and Collaborative Reports prepared and submitted by the Houston County Public Health Department were not reviewed by someone independent of the preparer.

**Summary of Corrective Action Previously Reported:** The 2015 finding references the PHN department and those reports are reviewed and approved by the PHN Director. The Department of Corrections/Court Services filed reports in 2016 that were not reviewed and approved by the District Supervisor. All future reports will be reviewed and approved prior to submittal.

**Status:** Fully Corrected. The reports are being reviewed and approved.
Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

**Finding Number: 2015-004**
**Finding Title: Eligibility**
**Program: Medical Assistance Program (CFDA No. 93.778)**

**Summary of Condition:** DHS maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. In one of the 40 case files tested, the asset information in the MAXIS system could not be verified to supporting documentation and a re-determination was not completed.

**Summary of Corrective Action Previously Reported:** One case in 2016 was not flagged by MAXIS for review and this was missed by the County. This review was completed in 2017. The County will implement procedures to ensure that future reviews are completed timely.

**Status:** Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

**Finding Number: 2016-003**
**Finding Title: Reporting - Accuracy**

**Summary of Condition:** During review of the LCTS Annual Collaborative Report, it was noted that expenditures reported were $10,296 less than the actual expenditures recorded in the general ledger.

Errors were also noted in the first and third quarter LCTS Cost Schedules (DHS-3220 reports) prepared by the Houston County Public Health Department. There was an error of $21,874 in salary costs, along with other errors, resulting in a total net effect of $25,055 in unreported expenditures. In addition, the County understated federal revenue offsets by $6,230 for those quarters. The resulting net error for the first and third quarters was $18,825, projected to all four quarters as $37,650.

**Summary of Corrective Action Previously Reported:** Re-submitted corrected reports. Future reports will be reviewed for appropriate expenditures.

**Status:** Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

**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:** Due to staff limitations, the Continuation of Operations Plan has not been completed. Sometime within 2017, the plan will be addressed by a committee and will include a dedicated Emergency Manager.

**Status:** Not Corrected. In 2018, 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.

> Was corrective action taken significantly different than the action previously reported?
> Yes _______ No ___X___