STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

HOUSTON COUNTY
CALEDONIA, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

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 700 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, 2015

Audit Practice Division
Office of the State Auditor
State of Minnesota

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

TABLE OF CONTENTS

HOUSTON COUNTY
CALEDONIA, MINNESOTA

TABLE OF CONTENTS

Introductory Section

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

ORGANIZATION
DECEMBER 31, 2015

			Term Expires
Elected			
Commissioners			
Board Member	Judy Storlie[1]	District 1	January 2017
Board Member	Justin Zmyewski	District 2	January 2019
Chair	Steve Schuldt[2]	District 3	January 2017
Board Member	Teresa Walter	District 4	January 2019
Vice Chair	Dana Kjome	District 5	January 2017
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 2017
Treasurer	Donna Trehus		January 2019
Appointed			
Assessor	Thomas Dybing		December 2016
County Engineer	Brian Pogodzinski		April 2017
Coroner	Mayo Medical Examiner		Indefinite
Court Administrator	Darlene Larson		Indefinite
Finance Director	Carol Lapham		Indefinite
Human Services Director	Linda Bahr		Indefinite
Public Health Nurse	Mary Marchel		Indefinite
Veterans Service Officer	Robert Gross		December 2015

[1]Chair 2016
[2]Vice Chair 2016

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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, 2015, 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, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Houston County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 21, 2016, on our consideration of Houston County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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 Houston 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

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 21, 2016

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(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, 2015. 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 $77,813,838, of which $65,525,565 is in net investment in capital assets and $4,064,549 is restricted to specific purposes.

- Houston County's net position increased by $5,237,758 for the year ended December 31, 2015.

- The net cost of governmental activities for the current fiscal year was $8,096,394. The net cost was funded by general revenues, including taxes and grants.

- Governmental funds' fund balances increased by $879,108.

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 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 in a statement following each governmental fund financial statement.

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or fiduciary, over assets that can be used only by other governments, nonprofits, or individuals. All of the County's fiduciary activities are reported in a separate Statement of Fiduciary Net 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 $5,237,758 from $72,576,080 as restated to $77,813,838.

Table 1
Net Position
(in Millions)

	2015	2014
Assets		
Current and other assets	$ 21.2	$ 21.0
Capital assets	81.5	78.2
Total Assets	$ 102.7	$ 99.2
Deferred Outflows of Resources		
Deferred pension outflows	$ 1.0	$ -
Liabilities		
Long-term liabilities	$ 23.6	$ 18.0
Other liabilities	1.5	2.8
Total Liabilities	$ 25.1	$ 20.8
Deferred Inflows of Resources		
Deferred pension inflows	$ 0.8	$ -
Net Position		
Net investment in capital assets	$ 65.5	$ 61.6
Restricted	4.1	3.3
Unrestricted	8.2	13.5
Total Net Position, as reported	$ 77.8	$ 78.4
Change in accounting principle*		(5.8)
Total Net Position, as restated		$ 72.6

*This is the first year the County implemented the new pension accounting and financial reporting standards in GASB Statements 68, 71, and 82. The County had to make a prior year change in accounting principles to record the County's net pension liability and related deferred outflows of resources.

Net position of the County's governmental activities increased by 7.2 percent ($77,813,838 compared to $72,576,080 as restated).

Table 2
Change in Net Position
(in Millions)

	2015	2014
Revenues		
Program revenues		
Fees, charges, fines, and other	$ 2.7	$ 3.1
Operating grants and contributions	10.3	9.2
Capital grants and contributions	1.7	1.2
General revenues		
Property taxes	11.0	10.6
Other taxes and payments in lieu of taxes	0.6	0.6
Grants and contributions	1.3	1.2
Other general revenues	0.4	1.3
Total Revenues	$ 28.0	$ 27.2
Expenses		
General government	$ 4.2	$ 3.7
Public safety	4.0	3.9
Transportation	6.2	11.6
Human services	4.1	4.1
Health	1.7	1.6
Sanitation	0.9	0.9
Culture and recreation	0.4	0.3
Conservation of natural resources	0.3	0.3
Economic development	0.4	0.3
Interest	0.6	0.6
Total Expenses	$ 22.8	$ 27.3
Increase (Decrease) in Net Position	$ 5.2	$ (0.1)
Net Position - January 1, as restated	72.6*	78.5
Net Position - December 31	$ 77.8	$ 78.4

*Amount includes a change in accounting principles

Governmental Activities

The cost of all governmental activities this year was $22,797,142. However, as shown in the Statement of Activities, the amount that the taxpayers ultimately financed for these activities through County property taxes was only $10,983,918, because some of the cost was paid by those who directly benefited from the programs ($2,684,565) or by other governments and organizations that subsidized certain programs with grants and contributions ($12,016,183). The County paid for the remaining "public benefit" portion of governmental activities with $13,334,152 in general revenues, primarily property taxes and other revenues, such as interest and general entitlements, resulting in an increase to net position of $5,237,758.

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

Table 3
Governmental Activities
(in Millions)

	Total Cost of Services		Net Cost (Revenue) of Services	
	2015	2014	2015	2014
Transportation	$ 6.2	$ 11.6	$ (2.0)	$ 4.7
General government	4.2	3.7	3.5	3.0
Human services	4.1	4.1	1.3	1.2
Public safety	4.0	3.9	3.4	3.0

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, 2015, Houston County's governmental funds reported combined ending fund balances of $17,486,069, an increase of $879,108 in comparison with 2014. The County is reporting an unassigned fund balance of $5,095,462 in 2015. 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, 2015, unassigned fund balance was $5,095,462, while total fund balance was $5,981,606. 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 44.9 percent of total General Fund expenditures, while total fund balance represents 52.7 percent of the same amount. While the 2015 General Fund final budget reflected a $95,621 use of fund balance, the General Fund final balance ended the year adding $276,776 to fund balance. Increased and additional sources of intergovernmental revenue and the underspending by various departments resulted in the increase to fund balance.

The Road and Bridge Special Revenue Fund's fund balance increased by $465,591 to $8,788,760, of which $7,748,160 is assigned. The Road and Bridge Department saw increased revenues in the form of additional reimbursements from the Federal Emergency Management Agency and the Federal Highway Administration for the 2013 flood disaster. There were also slightly higher revenues for a maintenance project where money was levied in 2015 but eventually qualified for state disaster funds. The Road and Bridge Department also received additional funding for past year's engineering for a local cost share construction project.

The Social Services Special Revenue Fund's fund balance increased by $69,760 to $1,640,456, of which all is assigned. The increase in fund balance is the result of the developmentally disabled, children's mental health, and elderly services program expenditures being less than anticipated along with an increase in expenditures due to an unbudgeted Electronic Document Management System project.

General Fund Budgetary Highlights

Houston County revised its General Fund budget during 2015, increasing both expected revenues and appropriations by 1.3 and 1.7 percent, respectively. For the year ended December 31, 2015, expenditures were less than final budget by $116,494.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015, the County had $81,525,842 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of $3,307,475, or 4.2 percent, over last year. More detailed information about the County's capital assets can be found in Note 2.A. of the financial statements.

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

	2015	2014
Land	$ 3.2	$ 3.2
Construction in progress	0.1	1.1
Buildings and improvements	18.2	18.5
Machinery, furniture, and equipment	3.1	2.9
Infrastructure	56.9	52.5
Totals	$ 81.5	$ 78.2

Long-Term Debt

At the end of the current fiscal year, the County had total general obligation bonds outstanding in the amount of $16,000,277, 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)

	2015	2014
G.O. bonds	$ 16.0	$ 16.6

Other obligations include loans payable, compensated absences, pension benefits, and other postemployment benefits. Houston County issued no additional debt in 2015.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2016 budget, tax rates, and fees that will be charged for the government-type activities.

- The unemployment rate in Houston County decreased, moving from 4.35 percent in 2014 to 3.83 percent in 2015 for the annual average. This is lower than the U.S. average of 5.29 percent but higher than the Minnesota rate of 3.71 percent.

- County General Fund expenditures for 2016 are budgeted to increase 7.25 percent from the 2015 level.

- Houston County's population decreased by 5.8 percent from 2005 to 2015, compared to an increase of 5.4 percent in Minnesota as a whole. Citizens age 65+ comprise 18.8 percent of the County's population.

- The proposed property tax levy has increased 4.0 percent for 2016.

- During 2016, Houston County officials will continue discussing options for repair or replacement of the County Highway facility. The County 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.

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, 2015

Assets		
Cash and pooled investments	$	13,868,761
Petty cash and change funds		17,160
Investments		2,929,460
Taxes receivable		
Delinquent		210,983
Accounts receivable - net		241,781
Accrued interest receivable		19,694
Loans receivable		482,466
Due from other governments		2,840,756
Inventories		605,677
Prepaid items		6,807
Capital assets		
Non-depreciable		3,338,680
Depreciable - net of accumulated depreciation		78,187,162
Total Assets	**$**	**102,749,387**
Deferred Outflows of Resources		
Deferred pension outflows	**$**	**1,051,302**
Liabilities		
Accounts payable	$	267,619
Salaries payable		521,338
Contracts payable		297,103
Due to other governments		97,186
Accrued interest payable		240,200
Unearned revenue		54,185
Customer deposits		22,429
Long-term liabilities		
Net OPEB obligation		396,386
Net pension liability		6,170,209
Due within one year		656,175
Due in more than one year		16,424,655
Total Liabilities	**$**	**25,147,485**
Deferred Inflows of Resources		
Deferred pension inflows	**$**	**839,366**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015

Net Position		
Net investment in capital assets	$	65,525,565
Restricted for		
General government		218,077
Public safety		209,020
Debt service		1,075,247
Highways and streets		2,300,684
Economic development		261,521
Unrestricted		8,223,724
Total Net Position	**$**	**77,813,838**

EXHIBIT 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

		Program Revenues			Net (Expense)
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Change in Net Position
Functions/Programs					
Primary government					
Governmental activities					
General government	$ 4,184,288	$ 415,203	$ 303,818	$ -	$ (3,465,267)
Public safety	3,992,145	250,113	305,027	39,293	(3,397,712)
Transportation	6,210,701	218,276	6,354,370	1,668,091	2,030,036
Sanitation	848,947	477,684	110,632	-	(260,631)
Human services	4,108,787	493,462	2,348,536	-	(1,266,789)
Health	1,747,123	776,243	735,868	-	(235,012)
Culture and recreation	394,663	45,748	-	-	(348,915)
Conservation of natural resources	349,485	2,103	98,424	-	(248,958)
Economic development	385,489	5,733	31,851	20,273	(327,632)
Interest	575,514	-	-	-	(575,514)
Total Governmental Activities	**$ 22,797,142**	**$ 2,684,565**	**$ 10,288,526**	**$ 1,727,657**	$ **(8,096,394)**

General Revenues	
Property taxes	$ 10,983,918
Mortgage registry and deed tax	13,368
Wheelage tax	206,119
Other taxes	2,917
Payments in lieu of tax	335,100
Grants and contributions not restricted to specific programs	1,331,326
Unrestricted investment earnings	212,347
Miscellaneous	248,383
Gain on sale of capital assets	674
Total general revenues	**$ 13,334,152**
Change in net position	**$ 5,237,758**
Net Position - Beginning, as restated (Note 1.E.)	**72,576,080**
Net Position - Ending	**$ 77,813,838**

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

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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, 2015

	General	Road and Bridge	Social Services	Nonmajor Fund Debt Service	Total
Assets					
Cash and pooled investments	$ 4,877,908	$ 6,984,493	$ 940,191	$ 1,066,169	$ 13,868,761
Petty cash and change funds	17,060	100	-	-	17,160
Investments	740,348	1,489,112	700,000	-	2,929,460
Taxes receivable					
Delinquent	121,856	43,867	22,690	22,570	210,983
Accounts receivable - net	106,139	905	134,737	-	241,781
Loans receivable	482,466	-	-	-	482,466
Accrued interest receivable	16,429	2,664	601	-	19,694
Due from other funds	6,559	90	-	-	6,649
Due from other governments	278,987	2,186,320	375,449	-	2,840,756
Prepaid expense	6,807	-	-	-	6,807
Inventories	-	605,677	-	-	605,677
Total Assets	**$ 6,654,559**	**$ 11,313,228**	**$ 2,173,668**	**$ 1,088,739**	**$ 21,230,194**
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	$ 98,415	$ 14,783	$ 154,421	$ -	$ 267,619
Salaries payable	319,858	69,473	132,007	-	521,338
Contracts payable	-	297,103	-	-	297,103
Due to other funds	-	-	6,649	-	6,649
Due to other governments	22,586	2,753	71,847	-	97,186
Unearned revenue	11,028	-	43,157	-	54,185
Customer deposits	22,429	-	-	-	22,429
Total Liabilities	**$ 474,316**	**$ 384,112**	**$ 408,081**	**$ -**	**$ 1,266,509**
Deferred Inflows of Resources					
Unavailable revenue	**$ 198,637**	**$ 2,140,356**	**$ 125,131**	**$ 13,492**	**$ 2,477,616**

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

EXHIBIT 3
(Continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	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	$ 6,807	$ -	$ -	$ -	$ 6,807
Long-term loans receivable	190,719	-	-	-	190,719
Inventories	-	605,677	-	-	605,677
Restricted for					
Debt service	-	-	-	1,075,247	1,075,247
Recorder's technology equipment	77,340	-	-	-	77,340
Recorder's compliance	130,521	-	-	-	130,521
E-911	87,717	-	-	-	87,717
Economic development loans	261,521	-	-	-	261,521
Conceal and carry	87,815	-	-	-	87,815
Sheriff's DUI forfeiture	33,488	-	-	-	33,488
Attorney forfeited property	10,216	-	-	-	10,216
Wheelage tax	-	413,860	-	-	413,860
Committed					
Road and bridge projects	-	21,063	-	-	21,063
Assigned					
Road and bridge	-	7,748,160	-	-	7,748,160
Human services	-	-	1,640,456	-	1,640,456
Unassigned	5,095,462	-	-	-	5,095,462
Total Fund Balances	**$ 5,981,606**	**$ 8,788,760**	**$ 1,640,456**	**$ 1,075,247**	**$ 17,486,069**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 6,654,559**	**$ 11,313,228**	**$ 2,173,668**	**$ 1,088,739**	**$ 21,230,194**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

Fund balances - total governmental funds (Exhibit 3)		**$ 17,486,069**
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.		81,525,842
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,477,616
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in the governmental funds.		1,051,302
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds payable	$ (15,980,000)	
Bond discount	34,473	
Bond premium	(54,750)	
Accrued interest payable	(240,200)	
Net pension liability	(6,170,209)	
Net OPEB obligation	(396,386)	
Compensated absences	(1,080,553)	(23,887,625)
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.		(839,366)
Net Position of Governmental Activities (Exhibit 1)		**$ 77,813,838**

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	General	Road and Bridge	Social Services	Nonmajor Fund Debt Service	Total
Revenues					
Taxes	$ 6,439,840	$ 2,448,157	$ 1,161,026	$ 1,183,867	$ 11,232,890
Licenses and permits	82,411	8,670	-	-	91,081
Intergovernmental	2,780,865	7,617,170	2,472,323	51,305	12,921,663
Charges for services	1,851,449	215,856	250,737	-	2,318,042
Fines and forfeits	12,674	-	-	-	12,674
Gifts and contributions	5,000	-	-	-	5,000
Investment earnings	179,867	22,970	9,510	-	212,347
Miscellaneous	269,372	14,543	254,356	-	538,271
Total Revenues	**$ 11,621,478**	**$ 10,327,366**	**$ 4,147,952**	**$ 1,235,172**	**$ 27,331,968**
Expenditures					
Current					
General government	$ 4,121,942	$ -	$ -	$ -	$ 4,121,942
Public safety	3,567,205	-	-	-	3,567,205
Transportation	-	9,718,895	-	-	9,718,895
Sanitation	841,308	-	-	-	841,308
Human services	-	-	4,078,192	-	4,078,192
Health	1,711,003	-	-	-	1,711,003
Culture and recreation	405,238	-	-	-	405,238
Conservation of natural resources	347,691	-	-	-	347,691
Economic development	350,989	-	-	-	350,989
Intergovernmental	-	242,784	-	-	242,784
Debt service					
Principal	-	-	-	585,000	585,000
Interest	-	-	-	576,241	576,241
Administrative (fiscal) charges	-	-	-	6,950	6,950
Total Expenditures	**$ 11,345,376**	**$ 9,961,679**	**$ 4,078,192**	**$ 1,168,191**	**$ 26,553,438**
Excess of Revenues Over (Under Expenditures)	**$ 276,102**	**$ 365,687**	**$ 69,760**	**$ 66,981**	**$ 778,530**
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	674	-	-	-	674
Net Change in Fund Balance	**$ 276,776**	**$ 365,687**	**$ 69,760**	**$ 66,981**	**$ 779,204**
Fund Balance - January 1	**5,704,830**	**8,323,169**	**1,570,696**	**1,008,266**	**16,606,961**
Increase (decrease) in inventories)	**-**	**99,904**	**-**	**-**	**99,904**
Fund Balance - December 31	**$ 5,981,606**	**$ 8,788,760**	**$ 1,640,456**	**$ 1,075,247**	**$ 17,486,069**

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

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, 2015

Net change in fund balances - total governmental funds (Exhibit 5)		**$ 779,204**
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	$ 2,477,616	
Deferred inflows of resources - January 1	(1,784,358)	693,258
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	$ 5,885,547	
Net book value of assets disposed	(11,558)	
Current year depreciation	(2,566,514)	3,307,475
Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net position. Also, governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of net position.		
Principal repayments		
General obligation bonds	$ 585,000	
Current year amortization of discounts and premiums	3,351	588,351
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	$ (37,833)	
Change in accrued interest payable	4,326	
Change in net pension liability, as restated	(53,427)	
Change in net OPEB obligation	(42,739)	
Change in deferred outflows of resources, as restated	738,605	
Change in deferred inflows of resources	(839,366)	
Change in inventories	99,904	(130,530)
Change in Net Position of Governmental Activities (Exhibit 2)		**$ 5,237,758**

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

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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, 2015

		Agency Funds
Assets		
Cash and pooled investments	**$**	**1,178,099**
Liabilities		
Accounts payable	$	137,543
Due to other governments		1,040,556
Total Liabilities	**$**	**1,178,099**

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2015. 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 and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

D. Assets, Liabilities, 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, 2015, 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 2015 were $179,867.

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 estimated fair value at the date of donation.

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

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

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

5. Compensated Absences

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

1. Summary of Significant Accounting Policies

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

6. Unearned/Unavailable Revenue

Governmental funds and government-wide financial statements report unearned revenue for resources that have been received, but not yet earned.

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 another 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 one item, deferred pension outflows, which qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, differences between projected and actual earnings on pension plan investments, 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) until that time. The County has two types, unavailable revenue and deferred pension inflows, that qualify for reporting in this category. Unavailable revenue arises only under a modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred pension inflows arise only under an accrual basis of accounting and, accordingly, are reported only in the statement of net position. This amount consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share.

1. Summary of Significant Accounting Policies

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

10. Classification of Net Position

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

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

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

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

11. Classification of Fund Balances

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

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

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

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.

1. Summary of Significant Accounting Policies

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

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 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Change in Accounting Principles

During the year ended December 31, 2015, the County adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

1. Summary of Significant Accounting Policies

E. Change in Accounting Principles (Continued)

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statement No. 68*, modifies the measure of payroll that is presented in the required supplementary information schedules.

GASB Statements 68 and 71 require the County to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the County's net pension liability and related deferred outflows of resources.

	Governmental Activities
Net Position, January 1, 2015, as previously reported	$ 78,380,165
Change in accounting principles	(5,804,085)
Net Position, January 1, 2015, as restated	$ 72,576,080

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	$ 13,868,761
Petty cash and change funds	17,160
Investments	2,929,460
Statement of fiduciary net position	
Cash and pooled investments	1,178,099
Total Cash and Investments	$ 17,993,480

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 does not have a deposit policy for custodial credit risk. As of December 31, 2015, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

(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 avoiding the need to sell securities in the open market prior to maturity; and (2) investing operating funds, when most prudent, in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the County's cash requirements.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Investment Type	Fair Value	Less Than 1 Year	1 - 3 Years	3 - 13 Years
Federal National Mortgage Association	$ 347,139	$ -	$ -	$ 347,139
Municipal Bonds	1,079,035	200,614	301,753	576,668
Negotiable certificates of deposit	3,210,724	100,250	932,780	2,177,694
Total Investments	$ 4,636,898	$ 300,864	$ 1,234,533	$ 3,101,501

Credit Risk

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

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

	Credit Rating	Rating Agency	Fair Value
Federal National Mortgage Association	AA+	Standard & Poor's	$ 347,139
Municipal Bonds	AAA/AA+/AA/A+	Standard & Poor's	1,079,035

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, 2015, none of Houston County's investments were subject to custodial credit risk.

            Concentration of Credit Risk

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

            Investments in any one issuer that represent five percent or more of the County's investments are as follows:

Issuer	Percent of Total Investments	Reported Amount
American Express Bank	5.36%	$ 248,327
Goldman Sachs Bank	5.31	246,163
Synchrony Bank	5.36	248,609

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2015, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Accounts receivable, gross	$	597,916
Less: allowance for uncollectible		(356,135)
Net Accounts Receivable	$	241,781

Net receivables for governmental activities are collectible within the year.

Of the loans receivable, $305,157 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 loans receivable balance includes $275,234 in flood loans not scheduled for collection in the subsequent year. The remaining loans receivable balance of $177,309 are for economic development loans, of which $142,681 is not scheduled for collection in the subsequent year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 1,156,775	$ 15,034	$ -	$ 1,171,809
Land - infrastructure right-of-way	1,779,146	-	-	1,779,146
Land improvements	251,088	-	-	251,088
Construction in progress - infrastructure	1,092,484	5,116,039	6,071,886	136,637
Total capital assets not depreciated	$ 4,279,493	$ 5,131,073	$ 6,071,886	$ 3,338,680

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings	$ 18,946,207	$ -	$ -	$ 18,946,207
Building improvements	1,586,258	59,000	-	1,645,258
Other improvements	622,287	-	-	622,287
Machinery, furniture, and equipment	6,497,032	695,474	302,146	6,890,360
Infrastructure	97,032,874	6,071,886	95,193	103,009,567
Total capital assets depreciated	$ 124,684,658	$ 6,826,360	$ 397,339	$ 131,113,679
Less: accumulated depreciation for				
Buildings	$ 1,795,508	$ 377,625	$ -	$ 2,173,133
Building improvements	721,350	32,020	-	753,370
Other improvements	113,208	12,445	-	125,653
Machinery, furniture, and equipment	3,630,413	473,216	290,588	3,813,041
Infrastructure	44,485,305	1,671,208	95,193	46,061,320
Total accumulated depreciation	$ 50,745,784	$ 2,566,514	$ 385,781	$ 52,926,517
Total capital assets depreciated, net	$ 73,938,874	$ 4,259,846	$ 11,558	$ 78,187,162
Governmental Activities Capital Assets, Net	$ 78,218,367	$ 9,390,919	$ 6,083,444	$ 81,525,842

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General government	$ 103,578
Public safety	438,099
Highways and streets, including depreciation of infrastructure assets	1,953,698
Human Services	179
Sanitation	15,838
Culture and recreation	2,498
Economic development	52,624
Total Depreciation Expense - Governmental Activities	$ 2,566,514

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2015, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Social Services	$ 6,559
Road and Bridge	Social Services	90
Total Due To/From Other Funds		$ 6,649

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, 2015. The project includes the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	$ 38,724	$ 554,014

2. Bonded Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2015
2009B G.O. Capital Improvement Plan Bonds	2019	$178,793 - $462,144	2.00- 3.25	$ 2,865,000	$ 1,510,000
2009C G.O. Jail Bonds	2030	$66,717 - $821,600	3.00- 4.00	7,250,000	7,250,000
2010A G.O. Capital Improvement Plan Bonds	2022	$74,534 - $441,585	1.05- 3.45	2,695,000	2,000,000
2010B G.O. Jail Bonds	2031	$214,006 - $1,396,950	4.00- 4.25	5,220,000	5,220,000
Total General Obligation Bonds and Notes				$ 18,030,000	$ 15,980,000

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Debt Service Requirements

Debt service requirements at December 31, 2015, were as follows:

Year Ending December 31	General Obligation Bonds Principal	Interest
2016	$ 600,000	$ 563,546
2017	615,000	547,761
2018	780,000	528,425
2019	805,000	505,410
2020	830,000	480,617
2021 - 2025	5,020,000	1,921,071
2026 - 2030	5,990,000	900,591
2031	1,340,000	28,475
Total	$ 15,980,000	$ 5,475,896

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
2009B G.O. Capital Improvement Plan Bonds	$ 1,920,000	$ -	$ 410,000	$ 1,510,000	$ 385,000
2009C G.O. Jail Bonds	7,250,000	-	-	7,250,000	-
2010A G.O. Capital Improvement Plan Bonds	2,175,000	-	175,000	2,000,000	215,000
2010B G.O. Jail Bonds	5,220,000	-	-	5,220,000	-
Premium on bonds	61,392	-	6,642	54,750	-
Less: discount on bonds	(37,764)	-	(3,291)	(34,473)	-
Total bonds payable	$ 16,588,628	$ -	$ 588,351	$ 16,000,277	$ 600,000
Compensated absences	1,042,720	819,101	781,268	1,080,553	56,175
Long-Term Liabilities	$ 17,631,348	$ 819,101	$ 1,369,619	$ 17,080,830	$ 656,175

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

2. Detailed Notes on All Funds (Continued)

D. Deferred Inflows of Resources and Unearned Revenue/Deferred Outflows of Resources

1. Deferred Outflows of Resources

There were no deferred outflows of resources for the year ended December 31, 2015 in the governmental funds.

2. Unearned Revenue/Deferred Inflows of Resources

As of December 31, 2015, there were various components of unearned and unavailable revenue as follows:

	Unearned Revenue	Unavailable Revenue
Delinquent property taxes	$ -	$ 127,263
Loans receivable	11,028	-
Intergovernmental	43,157	2,252,096
Other	-	98,257
Total Governmental Funds	$ 54,185	$ 2,477,616

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

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule 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 Fund. For members hired after June 30, 2010, benefits vest on a graduated schedule 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. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. 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)

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. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. 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.

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

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

For General Employees Retirement Fund 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 Fund and Public Employees Correctional Fund members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 55. Disability benefits are available for vested members and are based on years of service and average high-five salary.

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 Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015. Public Employees Police and Fire Fund members were required to contribute 10.80 percent of their annual covered salary in 2015. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary in 2015.

In 2015, the County was required to contribute the following percentages of annual covered salary:

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

The General Employees Retirement Fund Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014. The Public Employees Police and Fire Fund member and employer contribution rates increased 0.60 percent and 0.90 percent, respectively, from 2014.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

3. Contributions (Continued)

The County's contributions for the year ended December 31, 2015, to the pension plans were:

General Employees Retirement Fund	$	420,031
Public Employees Police and Fire Fund		152,447
Public Employees Correctional Fund		69,914

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

4. Pension Costs

General Employees Retirement Fund

At December 31, 2015, the County reported a liability of $4,967,497 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.0959 percent. It was 0.1061 percent measured as of June 30, 2014. The County recognized pension expense of $540,384 for its proportionate share of the General Employees Retirement Fund's pension expense.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

The County reported its proportionate share of the General Employees Retirement Fund'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	$ -	$ 250,446
Difference between projected and actual investment earnings	470,249	-
Changes in proportion	-	361,207
Contributions paid to PERA subsequent to the measurement date	211,488	-
Total	$ 681,737	$ 611,653

A total of $211,488 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, 2016. 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
2016	$ (86,322)
2017	(86,322)
2018	(86,322)
2019	117,562

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Police and Fire Fund

At December 31, 2015, the County reported a liability of $1,136,234 for its proportionate share of the Public Employees Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.100 percent. It was 0.102 percent measured as of June 30, 2014. The County recognized pension expense of $192,766 for its proportionate share of the Public Employees Police and Fire Fund's pension expense.

The County also recognized $9,000 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 Fund. Legislation requires the State of Minnesota to contribute $9 million to the Public Employees Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

The County reported its proportionate share of the Public Employees Police and Fire Fund'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	$ -	$ 184,260
Difference between projected and actual investment earnings	197,970	-
Changes in proportion	-	18,001
Contributions paid to PERA subsequent to the measurement date	78,908	-
Total	$ 276,878	$ 202,261

A total of $78,908 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, 2016. 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
2016	$ 9,040
2017	9,040
2018	9,040
2019	9,040
2020	(40,451)

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Fund

At December 31, 2015, the County reported a liability of $66,478 for its proportionate share of the Public Employees Correctional Fund's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.43 percent. It was 0.41 percent measured as of June 30, 2014. The County recognized pension expense of $72,429 for its proportionate share of the Public Employees Correctional Fund's pension expense.

The County reported its proportionate share of the Public Employees Correctional Fund'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	$ -	$ 25,452
Difference between projected and actual investment earnings	55,414	-
Changes in proportion	1,132	-
Contributions paid to PERA subsequent to the measurement date	36,141	-
Total	$ 92,687	$ 25,452

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Fund (Continued)

A total of $36,141 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, 2016. 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
2016	$ 5,747
2017	5,747
2018	5,747
2019	13,853

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended June 30, 2015, was $805,579.

5. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 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 were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Fund and the Public Employees Police and Fire Fund, cost of living benefit increases for retirees are assumed to be 1.0 percent effective every January 1 through 2035 and 2037, respectively, and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for all years for the Public Employees Correctional Fund.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for the Public Employees Police and Fire Fund was for the period July 1, 2004, through June 30, 2009. The experience study for the Public Employees Correctional Fund was for the period July 1, 2006, through June 30, 2011.

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 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:

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

6. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. 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, each of the pension plan's fiduciary net position was 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.

7. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, 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:

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

7. Pension Liability Sensitivity (Continued)

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the			
General Employees Retirement Fund net pension liability	$ 7,810,670	$ 4,967,497	$ 2,619,472
Public Employees Police and Fire Fund net pension liability	2,214,532	1,136,234	245,372
Public Employees Correctional Fund net pension liability (asset)	462,964	66,478	(250,871)

8. 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

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

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

3. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2015, were:

	Employee	Employer
Contribution amount	$ 9,479	$ 9,479
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 similar plan) and do not participate in any other health benefits program providing similar coverage will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the County's health benefits program.

Retirees are required to pay 100 percent of the total group rate. Since the premium is a blended rate determined on the entire active and retiree population, the retirees, whose costs are statistically higher than the group average, are receiving an implicit rate "subsidy." As of January 1, 2014, 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

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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 2015, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan:

ARC	$ 84,073
Interest on net OPEB obligation	15,914
Adjustment to ARC	(22,234)
Annual OPEB cost (expense)	$ 77,753
Contributions made during the year	(35,014)
Increase in net OPEB obligation	$ 42,739
Net OPEB Obligation - Beginning of Year	353,647
Net OPEB Obligation - End of Year	$ 396,386

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, 2013, 2014, and 2015, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage Of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2013	$ 103,207	$ 48,721	47.2%	$ 299,018
December 31, 2014	78,910	24,281	30.8	353,647
December 31, 2015	77,753	35,014	45.0	396,386

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

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, 2014	$ -	$ 591,403	$ 591,403	0.0 %	$ 6,566,800	9.0%

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan 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.

Projections 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, 2014, actuarial valuation, the Projected Unit Credit Actuarial Method was used. The actuarial assumptions included a 4.5 percent discount rate (net of expenses), including an inflation assumption of 2.5 percent and an annual health care cost rate of 7.5 percent initially, reduced incrementally to an ultimate rate of 5.0 percent after ten years. The initial unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30-year period beginning in 2008.

4. Summary of Significant Contingencies and Other Items

A. 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 $490,000 per claim in 2015 and $500,000 in 2016. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

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

B. Contingent Liabilities

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer the Agricultural Best Management Loan Program to individuals to implement projects that prevent or mitigate nonpoint source water pollution. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2015.

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

C. Jointly-Governed Organizations

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

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

4. Summary of Significant Contingencies and Other Items

   C. Jointly-Governed Organizations (Continued)

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

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

Houston County, in conjunction with other local governments, participates in the State of Minnesota's Sentence to Serve (STS) program. STS is a project of the State Department of Administration's Strive Toward Excellence in Performance (STEP) program. STEP's goal is a statewide effort to make positive improvements in public services. It gives the courts an alternative to jail or fines for the nonviolent offenders who can work on a variety of community or state projects. Private funding, funds from various foundations and initiative funds, as well as the Minnesota Departments of Corrections and Natural Resources, provide the funds needed to operate the STS program. Although Houston County has no operational or financial control over the STS program, Houston County paid $30,133 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. The County did not contribute to the SEMIC during the year.

The Southeast Services Cooperative delivers numerous services to support administrative and instructional functions to its members and to improve learning opportunities. During the year, the County made payments of $1,050 to the Cooperative.

4. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

The Minnesota Workforce Development (MWD) provides various job training services for member organizations. During the year, Houston County paid $102,569 to the MWD.

The Southeastern Minnesota Community Action Council (SEMCAC) provides various services emergency 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 $84,242 to SEMCAC.

The Southeastern Minnesota Library provides regional library services to counties and cities in southeastern Minnesota. During the year, Houston County paid $138,437 to the Library.

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 $103,666 to the MCCC.

D. Joint Ventures

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 on 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 (AMER) 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.

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southeast Minnesota Regional Emergency Communications Board (Continued)

The financial activities of the Board are accounted for by Olmsted County as the fiscal agent. During 2015, 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 violent 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 2015, Houston County paid $6,000 to the SEMVCET.

Family Services Collaborative

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

Control of the Collaborative is vested in a Board of Directors. Houston County appoints two members to this Board. Houston County acts as fiscal agent for the Collaborative. The Collaborative is financed by state grants and appropriations from participating members. During 2015, 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.

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Family Services Collaborative (Continued)

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

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

REQUIRED SUPPLEMENTARY INFORMATION

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT A-1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 6,467,121	$ 6,487,621	$ 6,439,840	$ (47,781)
Licenses and permits	50,330	69,430	82,411	12,981
Intergovernmental	2,408,394	2,412,874	2,780,865	367,991
Charges for services	1,876,106	1,903,006	1,851,449	(51,557)
Fines and forfeits	8,000	8,000	12,674	4,674
Gifts and contributions	3,000	3,000	5,000	2,000
Investment earnings	111,600	165,600	179,867	14,267
Miscellaneous	298,685	316,718	269,372	(47,346)
Total Revenues	**$ 11,223,236**	**$ 11,366,249**	**$ 11,621,478**	**$ 255,229**
Expenditures				
Current				
General government				
Commissioners	$ 277,806	$ 277,056	$ 203,677	$ 73,379
Courts	56,500	56,500	53,040	3,460
County auditor	213,587	219,589	209,324	10,265
Motor vehicle/license bureau	112,549	115,858	115,300	558
County treasurer	154,795	161,741	158,438	3,303
County assessor	359,034	372,559	366,204	6,355
Elections	23,672	23,672	8,801	14,871
Finance director	169,421	177,411	168,476	8,935
Data processing	427,632	416,450	419,579	(3,129)
Personnel	199,381	202,551	204,572	(2,021)
Attorney	478,611	510,283	503,690	6,593
Recorder	243,527	271,729	270,191	1,538
Surveyor	183,531	186,185	181,132	5,053
Planning and zoning	285,734	266,295	216,456	49,839
Buildings and plant	547,712	597,623	535,317	62,306
Veterans service officer	126,023	148,205	155,185	(6,980)
GIS	26,660	44,529	44,804	(275)
Other general government	402,270	354,304	307,756	46,548
Total general government	**$ 4,288,445**	**$ 4,402,540**	**$ 4,121,942**	**$ 280,598**

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

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 1,599,763	$ 1,630,295	$ 1,640,565	$ (10,270)
Boat and water safety	12,209	12,209	47,937	(35,728)
Emergency services	91,754	93,260	128,651	(35,391)
Coroner	53,800	53,800	53,846	(46)
E-911 system	179,730	181,660	179,540	2,120
County jail	1,361,574	1,390,320	1,374,180	16,140
Community corrections	223,113	224,424	142,486	81,938
Total public safety	**$ 3,521,943**	**$ 3,585,968**	**$ 3,567,205**	**$ 18,763**
Sanitation				
Solid waste	$ 496,633	$ 509,284	$ 511,992	$ (2,708)
Recycling	361,946	362,865	329,316	33,549
Total sanitation	**$ 858,579**	**$ 872,149**	**$ 841,308**	**$ 30,841**
Health				
Nursing services	$ 1,706,812	$ 1,706,812	$ 1,695,003	$ 11,809
Transportation	11,000	11,000	11,000	-
Health center (waivered services)	5,000	5,000	5,000	-
Total health	**$ 1,722,812**	**$ 1,722,812**	**$ 1,711,003**	**$ 11,809**
Culture and recreation				
Historical society	$ 42,500	$ 42,500	$ 42,500	$ -
Parks	32,759	32,759	40,715	(7,956)
County/regional library	138,437	138,437	138,437	-
Other culture and recreation	120,000	120,000	183,586	(63,586)
Total culture and recreation	**$ 333,696**	**$ 333,696**	**$ 405,238**	**$ (71,542)**

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

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Expenditures				
Current (Continued)				
Conservation of natural resources				
County extension	$ 175,579	$ 176,393	$ 174,916	$ 1,477
Soil and water conservation	129,000	129,000	129,000	-
Agriculture society/County fair	18,000	18,000	18,000	-
Water planning	22,672	22,672	25,775	(3,103)
Total conservation of natural resources	**$ 345,251**	**$ 346,065**	**$ 347,691**	**$ (1,626)**
Economic development				
Community development	$ 77,622	$ 77,622	$ 280,233	$ (202,611)
Airport	112,008	112,008	62,110	49,898
Other economic development	9,010	9,010	8,646	364
Total economic development	**$ 198,640**	**$ 198,640**	**$ 350,989**	**$ (152,349)**
Total Expenditures	**$ 11,269,366**	**$ 11,461,870**	**$ 11,345,376**	**$ 116,494**
Excess of Revenues Over (Under) Expenditures	**$ (46,130)**	**$ (95,621)**	**$ 276,102**	**$ 371,723**
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	674	674
Net Change in Fund Balance	**$ (46,130)**	**$ (95,621)**	**$ 276,776**	**$ 372,397**
Fund Balance - January 1	**5,704,830**	**5,704,830**	**5,704,830**	**-**
Fund Balance - December 31	**$ 5,658,700**	**$ 5,609,209**	**$ 5,981,606**	**$ 372,397**

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
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 2,444,111	$ 2,477,345	$ 2,448,157	$ (29,188)
Licenses and permits	5,000	8,600	8,670	70
Intergovernmental	7,229,468	6,301,157	7,617,170	1,316,013
Charges for services	213,000	149,039	215,856	66,817
Investment earnings	18,000	19,600	22,970	3,370
Miscellaneous	94,304	14,435	14,543	108
Total Revenues	**$ 10,003,883**	**$ 8,970,176**	**$ 10,327,366**	**$ 1,357,190**
Expenditures				
Current				
Transportation				
Administration	$ 258,054	$ 268,456	$ 268,114	$ 342
Maintenance	2,459,344	2,543,020	2,405,693	137,327
Construction	7,414,929	6,779,086	6,054,502	724,584
Equipment maintenance and shop	1,305,056	1,070,872	990,586	80,286
Total transportation	**$ 11,437,383**	**$ 10,661,434**	**$ 9,718,895**	**$ 942,539**
Intergovernmental				
Highways and streets	-	-	242,784	(242,784)
Total Expenditures	**$ 11,437,383**	**$ 10,661,434**	**$ 9,961,679**	**$ 699,755**
Excess of Revenues Over (Under) Expenditures	**$ (1,433,500)**	**$ (1,691,258)**	**$ 365,687**	**$ 2,056,945**
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	16,500	100	-	(100)
Net Change in Fund Balance	**$ (1,417,000)**	**$ (1,691,158)**	**$ 365,687**	**$ 2,056,845**
Fund Balance - January 1	**8,323,169**	**8,323,169**	**8,323,169**	**-**
Increase (decrease) in inventories	**-**	**-**	**99,904**	**99,904**
Fund Balance - December 31	**$ 6,906,169**	**$ 6,632,011**	**$ 8,788,760**	**$ 2,156,749**

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT A-3

BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,171,743	$ 1,171,743	$ 1,161,026	$ (10,717)
Intergovernmental	2,677,099	2,697,358	2,472,323	(225,035)
Charges for services	174,000	174,000	250,737	76,737
Investment earnings	10,000	10,000	9,510	(490)
Miscellaneous	356,830	356,830	254,356	(102,474)
Total Revenues	**$ 4,389,672**	**$ 4,409,931**	**$ 4,147,952**	**$ (261,979)**
Expenditures				
Current				
Human services				
Income maintenance	$ 1,691,164	$ 1,706,724	$ 1,597,965	$ 108,759
Social services	2,698,508	2,722,008	2,480,227	241,781
Total Expenditures	**$ 4,389,672**	**$ 4,428,732**	**$ 4,078,192**	**$ 350,540**
Net Change in Fund Balance	**$ -**	**$ (18,801)**	**$ 69,760**	**$ 88,561**
Fund Balance - January 1	**1,570,696**	**1,570,696**	**1,570,696**	**-**
Fund Balance - December 31	**$ 1,570,696**	**$ 1,551,895**	**$ 1,640,456**	**$ 88,561**

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT A-4

OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2015

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, 2008	$ -	$ 503,862	$ 503,862	0.00%	$ 6,203,278	8.12%
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%

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT A-5

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015

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
2015	0.0959%	$ 4,967,497	$ 5,828,943	85.22%	78.20%

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-6

SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015

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)
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.

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT A-7

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND
DECEMBER 31, 2015

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
2015	0.100%	$ 1,136,234	$ 920,237	123.47%	86.60%

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 FUND
DECEMBER 31, 2015

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)
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 this schedule.

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT A-9

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL FUND
DECEMBER 31, 2015

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
2015	0.430%	$ 66,478	$ 776,864	8.56%	96.90%

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 FUND
DECEMBER 31, 2015

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)
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.

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NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015

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 15th, 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, Road and Bridge Special Revenue, and Social Services Special Revenue Funds.

2. Other Postemployment Benefits

Houston County has implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2008. Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets is zero.

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

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SUPPLEMENTARY INFORMATION

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

NONMAJOR GOVERNMENTAL FUNDS

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
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,180,149	$ 1,180,149	$ 1,183,867	$ 3,718
Intergovernmental	49,221	49,221	51,305	2,084
Total Revenues	**$ 1,229,370**	**$ 1,229,370**	**$ 1,235,172**	**$ 5,802**
Expenditures				
Debt service				
Principal	$ 630,000	$ 630,000	$ 585,000	$ 45,000
Interest	599,370	599,370	576,241	23,129
Administrative (fiscal) charges	-	-	6,950	(6,950)
Total Expenditures	**$ 1,229,370**	**$ 1,229,370**	**$ 1,168,191**	**$ 61,179**
Net Change in Fund Balance	**$ -**	**$ -**	**$ 66,981**	**$ 66,981**
Fund Balance - January 1	**1,008,266**	**1,008,266**	**1,008,266**	**-**
Fund Balance - December 31	**$ 1,008,266**	**$ 1,008,266**	**$ 1,075,247**	**$ 66,981**

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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.

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

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT C-1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Balance January 1	Additions	Deductions	Balance December 31
CROOKED CREEK WATERSHED				
Assets				
Cash and pooled investments	$ 561	$ 27,189	$ 27,335	$ 415
Liabilities				
Due to other governments	$ 561	$ 27,189	$ 27,335	$ 415
HEALTH				
Assets				
Cash and pooled investments	$ 25,679	$ 70,895	$ 69,185	$ 27,389
Liabilities				
Accounts payable	$ 25,679	$ 70,895	$ 69,185	$ 27,389
REVOLVING				
Assets				
Cash and pooled investments	$ 55,139	$ 4,003,177	$ 4,001,960	$ 56,356
Liabilities				
Due to other governments	$ 55,139	$ 4,003,177	$ 4,001,960	$ 56,356

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT C-1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Balance January 1	Additions	Deductions	Balance December 31
SOIL AND WATER CONSERVATION				
Assets				
Cash and pooled investments	$ 488,355	$ 139,480	$ 91,934	$ 535,901
Liabilities				
Due to other governments	$ 488,355	$ 139,480	$ 91,934	$ 535,901
SCHOOL DISTRICTS				
Assets				
Cash and pooled investments	$ 137,369	$ 6,335,108	$ 6,325,272	$ 147,205
Liabilities				
Due to other governments	$ 137,369	$ 6,335,108	$ 6,325,272	$ 147,205
FAMILY COLLABORATIVE				
Assets				
Cash and pooled investments	$ 247,729	$ 68,303	$ 149,060	$ 166,972
Liabilities				
Due to other governments	$ 247,729	$ 68,303	$ 149,060	$ 166,972

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT C-1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	**$ 141,317**	**$ 27,612,052**	**$ 27,643,215**	**$ 110,154**
Liabilities				
Accounts payable	$ 141,317	$ 6,500,081	$ 6,531,244	$ 110,154
Due to other funds	-	12,646,602	12,646,602	-
Due to other governments	-	8,465,369	8,465,369	-
Total Liabilities	**$ 141,317**	**$ 27,612,052**	**$ 27,643,215**	**$ 110,154**
TOWNS AND CITIES				
Assets				
Cash and pooled investments	**$ 126,468**	**$ 7,458,928**	**$ 7,451,689**	**$ 133,707**
Liabilities				
Due to other governments	**$ 126,468**	**$ 7,458,928**	**$ 7,451,689**	**$ 133,707**

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT C-1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Balance January 1	Additions	Deductions	Balance December 31
VICTIM SERVICES				
Assets				
Cash and pooled investments	**$ 17,622**	**$ -**	**$ 17,622**	**$ -**
Liabilities				
Due to other governments	**$ 17,622**	**$ -**	**$ 17,622**	**$ -**
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	**$ 1,240,239**	**$ 45,715,132**	**$ 45,777,272**	**$ 1,178,099**
Liabilities				
Accounts payable	$ 166,996	$ 6,570,976	$ 6,600,429	$ 137,543
Due to other funds	-	12,646,602	12,646,602	-
Due to other governments	1,073,243	26,497,554	26,530,241	1,040,556
Total Liabilities	**$ 1,240,239**	**$ 45,715,132**	**$ 45,777,272**	**$ 1,178,099**

OTHER SCHEDULES

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT D-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Appropriations and Shared Revenue		
State		
Highway users tax	$	4,538,914
PERA rate reimbursement		24,121
Disparity reduction aid		129,075
Police aid		103,683
County program aid		851,572
Aquatic invasive species aid		28,058
SCORE		69,692
Market value credit - agricultural		326,558
Enhanced 911		92,829
Total appropriations and shared revenue	**$**	**6,164,502**
Reimbursement for Services		
State		
Minnesota Department of Public Safety	$	5,000
Minnesota Department of Human Services		482,582
Total reimbursement for services	**$**	**487,582**
Payments		
Local		
Local-Collaborative Literacy	$	4,745
Local-SE service coop		20,146
Local-Ucare		74,500
Payments in lieu of taxes		335,100
Total payments	**$**	**434,491**
Grants		
State		
Minnesota Department/Board of		
Health	$	212,529
Employment and Economic Development		5,000
Natural Resources		115,271
Human Services		1,060,294
Corrections		37,274
Transportation		1,766,146
Water and Soil Resources		70,366
Veterans Affairs		10,000
Pollution Control Agency		40,940
Peace Officer Standards and Training Board		3,665
Total state	**$**	**3,321,485**

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT D-1
(Continued)

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Grants (Continued)		
Federal		
Department of		
Agriculture	$	207,190
Transportation		1,133,295
Education		5,991
Health and Human Services		1,070,902
Homeland Security		75,646
Environmental Protection Agency		20,579
Total federal	**$**	**2,513,603**
Total state and federal grants	**$**	**5,835,088**
Total Intergovernmental Revenue	**$**	**12,921,663**

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT D-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	12-700-00072	$ 73,985
Passed Through Minnesota Department of Human Services			
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	15152MN10152514	129,776
Total U.S. Department of Agriculture			**$ 203,761**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Airport Improvement Program	20.106	3-27-0016-05-13	$ 4,075
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	00028	1,066,334
Passed Through Minnesota Department of Natural Resources			
Highway Planning and Construction Cluster			
Recreational Trails Program	20.219	0021-14-3C	75,000
(Total expenditures for Highway Planning and Construction Cluster $1,141,334)			
Passed Through Minnesota Department of Public Safety			
Highway Safety Cluster			
State and Community Highway Safety	20.600	F-SAFE15-2015-HOUPH-0883/ F-ENFRC15-2015-HOUSTNSO-0844	9,407
National Priority Safety Programs	20.616	F-ENFRC15-2015-HOSTNSO-1136	361
(Total expenditures for Highway Safety Cluster $9,768)			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	F-ENFRC15-2015-HOUSTSO-1293	2,634
Total U.S. Department of Transportation			**$ 1,157,811**
U.S. Environmental Protection Agency			
Passed Through Southeast Minnesota Water Resources Board			
Nonpoint Source Implementation Grants	66.460	666693	**$ 22,191**
U.S. Department of Education			
Passed Through Minnesota Department of Health			
Special Education - Grants for Infants and Families	84.181	75371	**$ 5,991**

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

EXHIBIT D-2
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Health			
Public Health Emergency Preparedness	93.069	12-700-00072	$ 20,490
Immunization Cooperative Agreements	93.268	12-700-00072	2,500
Temporary Assistance for Needy Families	93.558	12-700-00072	32,323
(Total Temporary Assistance for Needy Families 93.558 $134,731)			
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance - financed in part by the Prevention and Public Health Fund (PPHF)	93.733	12-700-00072	2,500
Maternal and Child Health Services Block Grant to the States	93.994	12-700-00072	25,298
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	1401MNFPSS	3,439
Temporary Assistance for Needy Families	93.558	1502MNTANF	102,408
(Total Temporary Assistance for Needy Families 93.558 $134,731)			
Child Support Enforcement	93.563	1504MN4005	246,820
Refugee and Entrant Assistance - State Administered Programs	93.566	1501MNRCMA	181
Child Care and Development Block Grant	93.575	G1501MNCCDF	4,485
Community-Based Child Abuse Prevention Grants	93.590	1302MNFRPG	6,855
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1401MNCWSS	2,266
Foster Care - Title IV-E	93.658	1501MNFOST	86,852
Social Services Block Grant	93.667	1501MNSOSR	97,444
Chafee Foster Care Independence Program	93.674	1401MN1420	3,598
Children's Health Insurance Program	93.767	1405MN5021	66
Medical Assistance Program	93.778	1505MN4ADM	438,142
Total U.S. Department of Health and Human Services			**$ 1,075,667**
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012	HOUSTON FBG-093015	$ 44,293
Passed Through Minnesota Department of Public Safety			
Hazard Mitigation Grant	97.039	F-HMGP-DR4131-HOUSTNCO-1052	13,555
Emergency Management Performance Grants	97.042	F-EMPG-2015-HOUSTNCO-1247	17,798
Total U.S. Department of Homeland Security			**$ 75,646**
Total Federal Awards			**$ 2,541,067**

The County did not pass through any federal awards to subrecipients during the year ended December 31, 2015.

HOUSTON COUNTY
CALEDONIA, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

1. <u>Reporting Entity</u>

   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. <u>Basis of Presentation</u>

   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, 2015. 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. <u>Summary of Significant Accounting Policies</u>

   Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or 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. <u>Reconciliation to Schedule of Intergovernmental Revenue</u>

Federal grant revenue per Schedule of Intergovernmental Revenue (Exhibit D-1)	$ 2,513,603
Deferred in 2014, recognized as revenue in 2015	
Special Supplemental Nutrition Program for Women, Infants, and Children	(3,125)
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	(304)
Airport Improvement Program	(52,155)
Temporary Assistance for Needy Families	(1,412)
Refugee and Entrant Assistance - State Administered Programs	(67)
Child Care and Development Block Grant	(394)
Medical Assistance Program	(4,462)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	(141,046)
Grants received more than 60 days after year-end, deferred in 2015	
Nonpoint Source Implementation Grants	1,612
Airport Improvement Program	56,230
Highway Planning and Construction	20,441
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	141,046
Child Support Enforcement	11,100
Expenditures per Schedule of Expenditures of Federal Awards (Exhibit D-2)	$ 2,541,067

Management and Compliance Section

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HOUSTON COUNTY
CALEDONIA, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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 generally accepted accounting principles: **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 programs:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

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

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

The major federal programs are:

Child Support Enforcement	CFDA No. 93.563
Medical Assistance Program	CFDA No. 93.778

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 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, we noted this issue in our review of the Environmental Services Department and the Recorder's Office.

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, 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 the internal control policies and procedures are being implemented by staff to the extent possible.

Client's Response:

The County will remain cognizant of the lack of segregation allowed by the number of employees within cash collecting departments and will evaluate possible internal control review processes or procedure changes that could be made.

Finding 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.

Client's Response:

IT will implement a group policy setting that requires password entry to access workstations following periods of inactivity.

ITEMS ARISING THIS YEAR

Finding 2015-001

Segregation of Duties - Payroll Maintenance

Criteria: Controls in place over operations should be designed to monitor maintenance changes entered into the payroll system.

Condition: Personnel responsible for entering maintenance changes into the payroll accounting system are also responsible for processing payroll payments to employees. Procedures were established to have personnel independent of the payroll process review a listing (Audit Logging File) of all maintenance changes and additions of new employees to the payroll accounting system each payroll and an additional review by another independent individual for all new employees added to the payroll accounting system. In two of the eight Audit Logging Files tested, there was no documented review of payroll maintenance changes or the addition of new employees and, for the third item tested, the Audit Logging File was not printed for an independent review.

Context: When personnel have access to make maintenance changes to the payroll accounting system and process payroll payments, unauthorized changes or payments could be made to the payroll accounting system.

Effect: When established internal control procedures are not followed, there is an increased risk that errors or irregularities will not be detected in a timely manner.

Cause: The County indicated one Audit Logging File was reviewed but not documented, another was missed, and the last was never printed for the review to be completed.

Recommendation: We recommend an individual independent of the payroll payment process review all maintenance changes to the payroll accounting system after each payroll on a timely basis.

Client's Response:

The County will ensure that an Audit Logging Report showing all payroll changes is created as a part of each payroll run. A documented review of these payroll changes will be completed by the appropriate personnel. Verification of all new hires will be completed by the Clerk to the County Board.

Finding 2015-002

Bank Reconciliations

Criteria: Internal controls in place over operations should be designed to provide reasonable assurance material errors will be prevented and detected in a timely manner.

Condition: County procedures indicate bank reconciliations are to be reviewed and approved by someone independent of preparation. In two of the four months tested, all bank reconciliations for the month, with the exception of one reconciliation, were not reviewed and approved in a timely manner.

Context: An individual independent of preparation is reviewing and approving bank reconciliations. This reconciliation is not always occurring in a timely manner. In the testing performed, the reconciliations were completed between two and four months late.

Effect: When established internal control procedures are not followed, there is an increased risk errors or irregularities will not be detected in a timely manner.

Cause: The County indicated the review and approval of bank reconciliations was behind due to other priorities.

Recommendation: We recommend bank reconciliations be reviewed and approved by an individual independent of preparation in a timely manner.

Client's Response:

The County Treasurer will closely monitor the balancing of the bank reconciliations performed by the deputy to ensure the reconciliation is completed in a timely manner.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

Finding 2015-003

Reporting

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778); Award #1505MN4ADM, 2015

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

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: During our testing of internal controls, we noted none of the quarterly DHS-3220 reports were reviewed by someone independent of the preparer.

Questioned Costs: None.

Context: The DHS-3220 report is submitted on a quarterly basis by the Public Health Department to the Minnesota Department of Human Services for reimbursement of Local Collaborative Time Study money, which is reimbursed to the County with federal Medical Assistance funds.

Effect: Lack of a review and approval process increases the risk that reports will not be submitted as required or will not be correct.

Cause: The County indicated that since the form provided by DHS did not have a signature line, the review was not completed.

Recommendation: We recommend that before reports are submitted for reimbursement, they be reviewed and reconciled to the accounting records by a supervisor or someone familiar with the program.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Loretta Lillegraven, Financial Supervisor, Houston County Public Health; Mary Marchel, Director, Houston County Public Health

Corrective Action Planned:

Financial Supervisor will have Director review and approve information to be submitted prior to submission.

Anticipated Completion Date:

Implemented beginning in 2016.

Finding 2015-004

Eligibility

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778); Award #1505MN4ADM, 2015

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

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: The Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. When performing our case file review for eligibility, we noted that in one of the 40 case files tested, the asset information in the MAXIS system could not be verified to supporting documentation.

The sample size was based on guidance from chapter 21 of the AICPA *Audit Guide Government Auditing Standards and Single Audits*.

Questioned Costs: Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

Context: The State of Minnesota contracts with the County Health and Human Services Department to perform the "intake function" (meeting with the social services client to determine income and categorical eligibility), while the Minnesota Department of Human Services maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to the participants.

Effect: Missing information, or the improper input of information into MAXIS, increases the risk that participants will receive benefits when they are not eligible.

Cause: County program personnel entering case information into MAXIS did not ensure all required information was obtained and/or retained.

Recommendation: We recommend the County implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is properly obtained and input into MAXIS. Consideration should be given to providing additional training to program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Financial Assistance Supervisor

Corrective Action Planned:

The asset policy was reviewed with staff regarding ReliaCard accounts and the need to verify balances.

Anticipated Completion Date:

This was completed September 1, 2016.

PREVIOUSLY REPORTED ITEM RESOLVED

Reporting (CFDA No. 93.563 and 93.778) (2014-001)

The County reported salaries and fringe expenditures on Form DHS-2550 Section E for employees who were listed on the random moment study (IMRMS). These employees should have been reported in Section A of the DHS-2550 report. The County also reported salaries and fringe expenditures on Form DHS-2550 Section A for employees who were not listed on the random moment time study (IMRMS). These employees should have been reported in Section E of the DHS-2550 report.

Resolution

The County properly reported salaries and fringe expenditures on Form DHS-2550 Section E and Section A.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2014-002

Prompt Payment of Invoices

Criteria: Pursuant to Minn. Stat. § 471.425, Houston County is required to make payment on vendor invoices 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 the standard payment period, the government entity must calculate and pay interest as required.

Condition: One of 25 invoices tested for compliance with this statute 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 the receipt of the invoice, whichever is later, is in noncompliance with Minnesota law.

Cause: The County stated it holds invoices for the same vendor in order to pay invoices in bulk.

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

Client's Response:

All departments will be reminded of the requirement set forth in Minn. Stat. § 471.425 regarding the prompt payment of invoices by the Finance Director.

PREVIOUSLY REPORTED ITEM RESOLVED

Collateral Assignments (2014-003)

Two of the County's depositories had not provided a written assignment for collateral pledged to secure County deposits.

Resolution

The County obtained written assignments from the two County depositories for collateral pledged to secure County deposits.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 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 the Information Technology Department, we 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 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 reporting of financial services to the public.

Cause: The County indicated it is aware of the issue but has not had time to address the completion of 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.

Client's Response:

County personnel continue to meet to address disaster recovery in conjunction with implementation of a full Continuation of Operations Plan. Certain limitations such as alternate site and authorizations to contract are being addressed.

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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, 2015, 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 21, 2016.

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, 2013-001, 2015-001, and 2015-002, 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 has no tax increment financing.

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 2014-002. 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 have been included in the Schedule of Findings and Questioned Costs. 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 STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 21, 2016

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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 Each 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 each of the County's major federal programs for the year ended December 31, 2015. Houston County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

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 each of Houston County's major federal programs 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 each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each 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 each of its major federal programs for the year ended December 31, 2015.

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 2015-004. Our opinion on each 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 Schedule of Findings and Questioned Costs as a 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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2015-003 and 2015-004, that we consider to be significant deficiencies.

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

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
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 21, 2016