

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

HOUSTON COUNTY
CALEDONIA, MINNESOTA

YEAR ENDED DECEMBER 31, 2014

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, 2014



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

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2014**

			<u>Term Expires</u>
Elected			
Commissioners			
Board Member	Judy Storlie	District 1	January 2017
Board Member	Justin Zmyewski	District 2	January 2015
Vice Chair	Steve Schuldt ¹	District 3	January 2017
Chair	Teresa Walter	District 4	January 2015
Board Member	Dana Kjome ²	District 5	January 2017
Attorney	Jamie Hammell		January 2015
Auditor	Char Meiners		January 2015
County Recorder	Beverly Bauer		January 2015
County Sheriff	Doug Ely		January 2015
District Judge	James Fabian		January 2018
Treasurer	Donna Trehus		January 2015
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

¹Chair 2015

²Vice Chair 2015

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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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, 2014, 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 of 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, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Houston County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to

the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2015, 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 OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 29, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014
(Unaudited)**

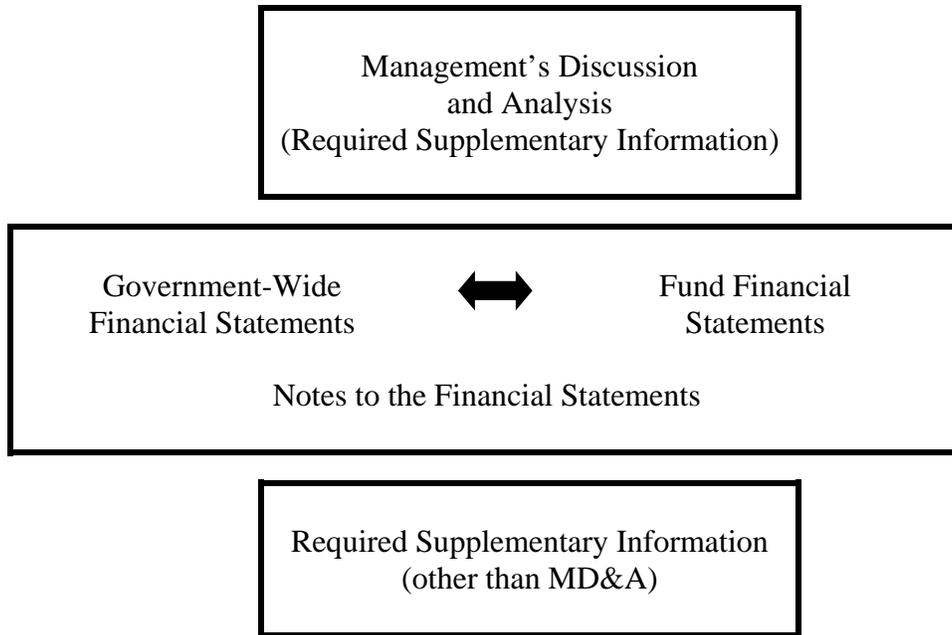
The Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2014. Since this information is designed to focus on current year activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$78,380,165, of which \$61,629,738 is in net investment in capital assets and \$3,221,632 is restricted to specific purposes.
- Houston County's net position decreased by \$102,362 for the year ended December 31, 2014.
- The net cost of governmental activities for the current fiscal year was \$13,811,768. The net cost was funded by general revenues, including taxes and grants.
- Governmental funds' fund balances increased by \$2,038,648.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



There are two government-wide financial statements. The Statement of Net Position and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Government-wide financial statements start on page 13. 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 and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net position and changes in them. You can think of the County's net position--the difference between assets and liabilities--as one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's net 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 15. 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 decreased \$102,362 from \$78,482,527 to \$78,380,165.

Table 1
Net Position
(in Millions)

	<u>2014</u>	<u>2013</u>
Assets		
Current and other assets	\$ 21.0	\$ 22.7
Capital assets	<u>78.2</u>	<u>77.0</u>
Total Assets	<u>\$ 99.2</u>	<u>\$ 99.7</u>
Liabilities		
Long-term liabilities	\$ 18.0	\$ 18.4
Other liabilities	<u>2.8</u>	<u>2.8</u>
Total Liabilities	<u>\$ 20.8</u>	<u>\$ 21.2</u>
Net Position		
Net investment in capital assets	\$ 61.6	\$ 59.9
Restricted	3.3	5.4
Unrestricted	<u>13.5</u>	<u>13.2</u>
Total Net Position	<u>\$ 78.4</u>	<u>\$ 78.5</u>

Net position of the County's governmental activities decreased by 0.1 percent (\$78,380,165 compared to \$78,482,527).

Table 2
Change in Net Position
(in Millions)

	<u>2014</u>	<u>2013</u>
Revenues		
Program revenues		
Fees, fines, charges, and other	\$ 3.1	\$ 2.8
Operating grants and contributions	9.2	12.0
Capital grants and contributions	1.2	1.7
General revenues		
Property taxes	10.6	10.1
Other taxes and payments in lieu of taxes	0.6	0.5
Grants and contributions	1.2	1.1
Other general revenues	<u>1.3</u>	<u>0.4</u>
Total Revenues	<u>\$ 27.2</u>	<u>\$ 28.6</u>

	<u>2014</u>	<u>2013</u>
Program expenses		
General government	\$ 3.7	\$ 4.0
Public safety	3.9	3.8
Transportation	11.6	12.5
Human services	4.1	4.4
Health	1.6	1.7
Sanitation	0.9	0.8
Culture and recreation	0.3	0.3
Conservation of natural resources	0.3	0.3
Economic development	0.3	0.6
Interest	<u>0.6</u>	<u>0.6</u>
 Total Program Expenses	 <u>\$ 27.3</u>	 <u>\$ 29.0</u>
 Increase (Decrease) in Net Position	 <u><u>\$ (0.1)</u></u>	 <u><u>\$ (0.4)</u></u>

Governmental Activities

The cost of all governmental activities this year was \$27,344,174. However, as shown in the Statement of Activities, the amount that the taxpayers ultimately financed for these activities through County property taxes was only \$10,652,532, because some of the cost was paid by those who directly benefited from the programs (\$3,121,590) or by other governments and organizations that subsidized certain programs with grants and contributions (\$10,410,816). The County paid for the remaining “public benefit” portion of governmental activities with \$13,709,406 in general revenues, primarily property taxes and other revenues, such as interest and general entitlements, resulting in a decrease to net position of \$102,362.

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

Table 3
Governmental Activities
(in Millions)

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Transportation	\$ 11.6	\$ 12.4	\$ 4.7	\$ 3.0
Human services	4.1	4.4	1.2	1.3
Public safety	3.9	3.8	3.0	3.3
General government	3.7	4.0	3.0	3.3

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

At December 31, 2014, Houston County's governmental funds reported combined ending fund balances of \$16,606,961, an increase of \$2,038,648 in comparison with 2013. The County is reporting an unassigned fund balance of \$4,826,694 in 2014. 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, 2014, unassigned fund balance was \$4,826,694, while total fund balance was \$5,704,830. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 43.5 percent of total General Fund expenditures, while total fund balance represents 51.4 percent of the same amount. While the 2014 General Fund final budget reflected a \$203,382 use of fund balance, the General Fund final balance ended the year adding \$712,023 to fund balance. The County received an insurance settlement in the amount of \$731,502 for damage to the unoccupied Historic Jail that occurred when the sprinkler system malfunctioned. A decision as to the usefulness of the building and the use of these funds is being discussed by the Board.

The Road and Bridge Special Revenue Fund's fund balance increased by \$898,780 to \$8,323,169, of which \$5,793,629 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 2014 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 \$279,555 to \$1,570,696, 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 2014, increasing both expected revenues and appropriations by 0.7 and 1.6 percent, respectively. For the year ended December 31, 2014, expenditures were more than final budget by \$42,523.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the County had \$78,218,367 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of \$1,237,434, or 1.6 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)

	<u>2014</u>	<u>2013</u>
Land	\$ 3.2	\$ 3.2
Construction in progress	1.1	2.1
Buildings and improvements	18.5	18.9
Machinery, furniture, and equipment	2.9	2.8
Infrastructure	<u>52.5</u>	<u>50.0</u>
Totals	<u>\$ 78.2</u>	<u>\$ 77.0</u>

Long-Term Debt

At the end of the current fiscal year, the County had total general obligation bonds outstanding in the amount of \$16,588,628, as shown in Table 5. More detailed information about the County's long-term liabilities is presented in Note 2.C. to the financial statements.

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

	<u>2014</u>	<u>2013</u>
G.O. bonds	<u>\$ 16.6</u>	<u>\$ 17.1</u>

Other obligations include loans payable, compensated absences, and other postemployment benefits. Houston County issued no additional debt in 2014.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2015 budget, tax rates, and fees that will be charged for the government-type activities.

- The unemployment rate in Houston County decreased, moving from 5.01 percent in 2013 to 4.35 percent in 2014 for the annual average. This is lower than the U.S. average of 6.17 percent but higher than the Minnesota rate of 4.09 percent.
- County General Fund expenditures for 2015 are budgeted to decrease 2.84 percent from the 2014 level.
- Houston County's population decreased by 5.9 percent from 2004 to 2014, compared to an increase of 5.9 percent in Minnesota as a whole. Citizens age 65+ comprise 18.33 percent of the County's population.
- The proposed property tax levy has increased 4.0 percent for 2015.
- During 2015, Houston County officials will continue discussing options for repair or replacement of the County Highway facility.

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.

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, 2014**

Assets

Cash and pooled investments	\$	13,965,284
Petty cash and change funds		17,160
Investments		2,868,635
Taxes receivable		
Delinquent		221,009
Accounts receivable - net		199,844
Accrued interest receivable		23,372
Loans receivable		707,920
Due from other governments		2,455,916
Inventories		505,773
Prepaid items		12,769
Capital assets		
Non-depreciable		4,279,493
Depreciable - net of accumulated depreciation		73,938,874
Total Assets	\$	99,196,049

Liabilities

Accounts payable	\$	237,535
Salaries payable		411,711
Contracts payable		581,480
Due to other governments		149,623
Accrued interest payable		244,526
Unearned revenue		1,186,185
Customer deposits		19,829
Long-term liabilities		
Net OPEB obligation		353,647
Due within one year		639,239
Due in more than one year		16,992,109
Total Liabilities	\$	20,815,884

Net Position

Net investment in capital assets	\$	61,629,738
Restricted for		
General government		220,978
Public safety		192,361
Debt service		1,008,266
Highways and streets		1,553,123
Economic development		246,904
Unrestricted		13,528,795
Total Net Position	\$	78,380,165

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Program Revenues</u>			<u>Net (Expense) Revenues and Change in Net Position</u>	
	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
<u>Functions/Programs</u>					
Primary government					
Governmental activities					
General government	\$ 3,676,139	\$ 384,936	\$ 281,329	\$ -	\$ (3,009,874)
Public safety	3,913,994	141,660	756,158	-	(3,016,176)
Transportation	11,614,832	586,405	5,135,650	1,145,662	(4,747,115)
Sanitation	882,815	545,162	63,803	-	(273,850)
Human services	4,064,783	478,889	2,364,018	-	(1,221,876)
Health	1,618,445	938,457	524,257	-	(155,731)
Culture and recreation	363,318	39,462	-	-	(323,856)
Conservation of natural resources	331,425	2,565	103,392	-	(225,468)
Economic development	297,400	4,054	19,548	16,999	(256,799)
Interest	581,023	-	-	-	(581,023)
Total Governmental Activities	<u>\$ 27,344,174</u>	<u>\$ 3,121,590</u>	<u>\$ 9,248,155</u>	<u>\$ 1,162,661</u>	<u>\$ (13,811,768)</u>
General Revenues					
Property taxes					\$ 10,652,532
Mortgage registry and deed tax					11,801
Wheelage tax					207,740
Other taxes					4,235
Payments in lieu of tax					338,021
Grants and contributions not restricted to specific programs					1,214,181
Unrestricted investment earnings					223,092
Miscellaneous					1,014,531
Gain on sale of capital assets					43,273
Total general revenues					<u>\$ 13,709,406</u>
Change in net position					<u>\$ (102,362)</u>
Net Position - Beginning					<u>78,482,527</u>
Net Position - Ending					<u>\$ 78,380,165</u>

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, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Fund Debt Service</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 4,474,981	\$ 7,687,419	\$ 802,023	\$ 1,000,861	\$ 13,965,284
Petty cash and change funds	17,060	100	-	-	17,160
Investments	683,185	1,485,450	700,000	-	2,868,635
Taxes receivable					
Delinquent	130,473	45,041	22,702	22,793	221,009
Accounts receivable - net	78,251	2,592	119,001	-	199,844
Loans receivable	707,920	-	-	-	707,920
Accrued interest receivable	19,639	2,866	867	-	23,372
Due from other funds	6,696	-	-	-	6,696
Due from other governments	237,296	1,873,566	345,054	-	2,455,916
Prepaid expense	12,769	-	-	-	12,769
Inventories	-	505,773	-	-	505,773
Total Assets	\$ 6,368,270	\$ 11,602,807	\$ 1,989,647	\$ 1,023,654	\$ 20,984,378
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 75,938	\$ 41,439	\$ 120,158	\$ -	\$ 237,535
Salaries payable	261,659	63,998	86,054	-	411,711
Contracts payable	-	581,480	-	-	581,480
Due to other funds	-	-	6,696	-	6,696
Due to other governments	82,253	8,694	58,676	-	149,623
Unearned revenue	16,028	1,127,000	43,157	-	1,186,185
Customer deposits	19,829	-	-	-	19,829
Total Liabilities	\$ 455,707	\$ 1,822,611	\$ 314,741	\$ -	\$ 2,593,059
Deferred Inflows of Resources					
Unavailable revenue (Note 2.D.)	\$ 207,733	\$ 1,457,027	\$ 104,210	\$ 15,388	\$ 1,784,358

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Fund Debt Service</u>	<u>Total</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> (Continued)					
Fund Balances					
Nonspendable					
Prepaid items	\$ 12,769	\$ -	\$ -	\$ -	\$ 12,769
Long-term loans receivable	205,124	-	-	-	205,124
Inventories	-	505,773	-	-	505,773
Restricted for					
Debt service	-	-	-	1,008,266	1,008,266
Recorder's technology equipment	64,683	-	-	-	64,683
Recorder's compliance	144,206	-	-	-	144,206
E-911	85,337	-	-	-	85,337
Economic development loans	246,904	-	-	-	246,904
Conceal and carry	79,092	-	-	-	79,092
Sheriff's DUI forfeiture	27,932	-	-	-	27,932
Attorney forfeited property	12,089	-	-	-	12,089
Road and bridge projects	-	189,027	-	-	189,027
Wheelage tax	-	207,740	-	-	207,740
Committed					
Road and bridge projects	-	1,627,000	-	-	1,627,000
Assigned					
Road and bridge	-	5,793,629	-	-	5,793,629
Human services	-	-	1,570,696	-	1,570,696
Unassigned	4,826,694	-	-	-	4,826,694
Total Fund Balances	\$ 5,704,830	\$ 8,323,169	\$ 1,570,696	\$ 1,008,266	\$ 16,606,961
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 6,368,270	\$ 11,602,807	\$ 1,989,647	\$ 1,023,654	\$ 20,984,378

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

Fund balances - total governmental funds (Exhibit 3)	\$	16,606,961
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		78,218,367
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,784,358
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	\$ (16,565,000)	
Bond discount	37,764	
Bond premium	(61,392)	
Accrued interest payable	(244,526)	
Net OPEB obligation	(353,647)	
Compensated absences	(1,042,720)	
	(18,229,521)	(18,229,521)
Net Position of Governmental Activities (Exhibit 1)	\$	<u>78,380,165</u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Fund Debt Service</u>	<u>Total</u>
Revenues					
Taxes	\$ 6,131,972	\$ 2,418,195	\$ 1,116,490	\$ 1,189,581	\$ 10,856,238
Licenses and permits	67,480	7,690	-	-	75,170
Intergovernmental	2,381,643	10,699,376	2,733,131	37,908	15,852,058
Charges for services	1,933,625	533,320	203,592	-	2,670,537
Fines and forfeits	27,952	-	-	-	27,952
Gifts and contributions	4,500	-	-	-	4,500
Investment earnings	198,523	14,542	10,027	-	223,092
Miscellaneous	1,036,466	24,358	276,424	-	1,337,248
Total Revenues	\$ 11,782,161	\$ 13,697,481	\$ 4,339,664	\$ 1,227,489	\$ 31,046,795
Expenditures					
Current					
General government	\$ 4,034,746	\$ -	\$ -	\$ -	\$ 4,034,746
Public safety	3,535,994	-	-	-	3,535,994
Transportation	-	12,576,995	-	-	12,576,995
Sanitation	859,154	-	-	-	859,154
Human services	-	-	4,060,109	-	4,060,109
Health	1,615,049	-	-	-	1,615,049
Culture and recreation	389,897	-	-	-	389,897
Conservation of natural resources	330,436	-	-	-	330,436
Economic development	341,349	-	-	-	341,349
Intergovernmental	-	230,211	-	-	230,211
Debt service					
Principal	-	-	-	490,000	490,000
Interest	-	-	-	585,774	585,774
Administrative (fiscal) charges	-	-	-	3,425	3,425
Total Expenditures	\$ 11,106,625	\$ 12,807,206	\$ 4,060,109	\$ 1,079,199	\$ 29,053,139
Excess of Revenues Over (Under Expenditures)	\$ 675,536	\$ 890,275	\$ 279,555	\$ 148,290	\$ 1,993,656
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	36,487	6,786	-	-	43,273
Net Change in Fund Balance	\$ 712,023	\$ 897,061	\$ 279,555	\$ 148,290	\$ 2,036,929
Fund Balance - January 1	4,992,807	7,424,389	1,291,141	859,976	14,568,313
Increase (decrease) in inventories)	-	1,719	-	-	1,719
Fund Balance - December 31	\$ 5,704,830	\$ 8,323,169	\$ 1,570,696	\$ 1,008,266	\$ 16,606,961

**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, 2014**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 2,036,929

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	\$ 1,784,358	
Deferred inflows of resources - January 1	(5,632,614)	(3,848,256)

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

Expenditures for general capital assets and infrastructure	\$ 3,730,530	
Net book value of assets disposed	(41,240)	
Current year depreciation	(2,451,856)	1,237,434

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	\$ 490,000	
Loans	29,700	
Current year amortization of discounts and premiums	3,351	523,051

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	\$ (3,435)	
Change in accrued interest payable	4,825	
Change in net OPEB obligation	(54,629)	
Change in inventories	1,719	(51,520)

Change in Net Position of Governmental Activities (Exhibit 2) \$ (102,362)

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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, 2014**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 1,240,239</u>
<u>Liabilities</u>	
Accounts payable	\$ 166,996
Due to other governments	<u>1,073,243</u>
Total Liabilities	<u><u>\$ 1,240,239</u></u>

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

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, 2014. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

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

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

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.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds and blended component unit. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as a separate column in the fund financial statements. All remaining funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

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

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

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

Additionally, the County reports the following fund types:

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

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

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, 2014, 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 2014 were \$198,523.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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

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

All receivables are shown net of an allowance for uncollectibles.

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

3. Inventories and Prepaid Items

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

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

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:

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

5. Compensated Absences

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Unearned Revenue

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

7. Long-Term Obligations

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

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report 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. Currently, the County has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report 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 periods(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County reports unavailable revenue in connection with receivables for revenues that are not considered to be

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Deferred Outflows/Inflows of Resources (Continued)

available to liquidate liabilities of the current period. Unavailable revenues are 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.

9. 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.

10. 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.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Classification of Fund Balances (Continued)

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.

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.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. 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.

12. 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. Future Change in Accounting Standards

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*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the County's calendar year 2015. The County has not yet determined the financial statement impact of adopting this new standard.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

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	\$ 13,965,284
Petty cash and change funds	17,160
Investments	2,868,635
Statement of fiduciary net position	
Cash and pooled investments	<u>1,240,239</u>
 Total Cash and Investments	 <u><u>\$ 18,091,318</u></u>

a. Deposits

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

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2014, the County's exposure to custodial credit risk is questionable due to failure to obtain written assignment.

b. Investments

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

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 - 3 Years</u>	<u>3 - 13 Years</u>
Federal National Mortgage Association	\$ 150,811	\$ -	\$ -	\$ 150,811
Federal Home Loan Bank	98,102	-	-	98,102
Municipal Bonds	1,083,449	-	305,072	778,377
Negotiable certificates of deposit	2,746,219	97,773	251,839	2,396,607
Total Investments	<u>\$ 4,078,581</u>	<u>\$ 97,773</u>	<u>\$ 556,911</u>	<u>\$ 3,423,897</u>

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.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Credit Risk (Continued)

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

	<u>Credit Rating</u>	<u>Rating Agency</u>	<u>Fair Value</u>
Federal National Mortgage Association	AA+	Standard & Poor's	\$ 150,811
Federal Home Loan Bank	AA+	Standard & Poor's	98,102
Municipal Bonds	AAA/AA+/AA/A+	Standard & Poor's	1,083,449

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, 2014, 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.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Concentration of Credit Risk (Continued)

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

<u>Issuer</u>	<u>Percent of Total Investments</u>	<u>Reported Amount</u>
American Express Bank	6.01%	\$ 245,193
Goldman Sachs Bank	6.14	250,344
State Bank of India	6.07	247,758
Synchrony Bank	6.02	245,556

2. Receivables

Receivables as of December 31, 2014, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Accounts receivable, gross	\$ 556,619
Less: allowance for uncollectible	<u>(356,775)</u>
Net Accounts Receivable	<u>\$ 199,844</u>

Net receivables for governmental activities are collectible within the year.

Of the loans receivable, \$602,181 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 \$560,369 in flood loans not scheduled for collection in the subsequent year. The remaining loans receivable balance of \$105,739 are for economic development loans, of which \$86,491 is not scheduled for collection in the subsequent year.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,145,973	\$ 10,802	\$ -	\$ 1,156,775
Land - infrastructure right-of-way	1,772,695	6,451	-	1,779,146
Land improvements	251,088	-	-	251,088
Construction in progress - infrastructure	<u>2,125,029</u>	<u>2,589,053</u>	<u>3,621,598</u>	<u>1,092,484</u>
Total capital assets not depreciated	<u>\$ 5,294,785</u>	<u>\$ 2,606,306</u>	<u>\$ 3,621,598</u>	<u>\$ 4,279,493</u>
Capital assets depreciated				
Buildings	\$ 18,946,207	\$ -	\$ -	\$ 18,946,207
Building improvements	1,586,258	-	-	1,586,258
Other improvements	622,287	-	-	622,287
Machinery, furniture, and equipment	6,274,925	612,292	390,185	6,497,032
Infrastructure	<u>93,321,077</u>	<u>4,133,530</u>	<u>421,733</u>	<u>97,032,874</u>
Total capital assets depreciated	<u>\$ 120,750,754</u>	<u>\$ 4,745,822</u>	<u>\$ 811,918</u>	<u>\$ 124,684,658</u>
Less: accumulated depreciation for				
Buildings	\$ 1,417,883	\$ 377,625	\$ -	\$ 1,795,508
Building improvements	689,625	31,725	-	721,350
Other improvements	100,762	12,446	-	113,208
Machinery, furniture, and equipment	3,506,533	472,825	348,945	3,630,413
Infrastructure	<u>43,349,803</u>	<u>1,557,235</u>	<u>421,733</u>	<u>44,485,305</u>
Total accumulated depreciation	<u>\$ 49,064,606</u>	<u>\$ 2,451,856</u>	<u>\$ 770,678</u>	<u>\$ 50,745,784</u>
Total capital assets depreciated, net	<u>\$ 71,686,148</u>	<u>\$ 2,293,966</u>	<u>\$ 41,240</u>	<u>\$ 73,938,874</u>
Governmental Activities Capital Assets, Net	<u>\$ 76,980,933</u>	<u>\$ 4,900,272</u>	<u>\$ 3,662,838</u>	<u>\$ 78,218,367</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General government	\$ 112,016
Public safety	439,076
Highways and streets, including depreciation of infrastructure assets	1,856,976
Sanitation	19,253
Culture and recreation	1,560
Economic development	<u>22,975</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,451,856</u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2014, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Social Services	\$ 6,696

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, 2014. The project includes the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities Roads and bridges	\$ 511,259	\$ 210,588

2. Loans Payable

Houston County received a grant of \$142,000 from the Minnesota Department of Employment and Economic Development. The County used the grant to make an installment loan to fund an economic development project in the County. The County is entitled to the first \$100,000 of principal and interest repayments, and the remaining \$42,000 is to be repaid to the state. Payments on the state loan were deferred until December 2012 when monthly payments of \$1,205, including interest at 6.0 percent, were scheduled through March 2016. In May 2014, the remaining balance of the loan was collected and paid to the Minnesota Department of Employment and Economic Development, thereby closing the loan.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Bonded Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2014
General obligation bonds					
2009B G.O. Capital Improvement Plan Bonds	2019	\$178,793 - \$462,144	2.00 - 3.25	\$ 2,865,000	\$ 1,920,000
2009C G.O. Jail Bonds	2030	\$66,717 - \$821,600	3.00 - 4.00	7,250,000	7,250,000
2010B G.O. Capital Improvement Plan Bonds	2022	\$74,534 - \$441,585 \$214,006 -	1.05 - 3.45 4.00 -	2,695,000	2,175,000
2010B G.O. Jail Bonds	2031	\$1,396,950	4.25	5,220,000	5,220,000
Total General Obligation Bonds				<u>\$ 18,030,000</u>	<u>\$ 16,565,000</u>

4. Debt Service Requirements

Debt service requirements at December 31, 2014, were as follows:

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2015	\$ 585,000	\$ 576,242
2016	600,000	563,546
2017	615,000	547,761
2018	780,000	528,425
2019	805,000	505,410
2020 - 2024	4,775,000	2,090,131
2025 - 2029	5,775,000	1,128,772
2030 - 2031	2,630,000	111,850
Total	<u>\$ 16,565,000</u>	<u>\$ 6,052,137</u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
2009B G.O. Capital Improvement Plan Bonds	\$ 2,215,000	\$ -	\$ 295,000	\$ 1,920,000	\$ 410,000
2009C G.O. Jail Bonds	7,250,000	-	-	7,250,000	-
2010A G.O. Capital Improvement Plan Bonds	2,370,000	-	195,000	2,175,000	175,000
2010B G.O. Jail Bonds	5,220,000	-	-	5,220,000	-
Premium on bonds	68,034	-	6,642	61,392	-
Less: discount on bonds	(41,055)	-	(3,291)	(37,764)	-
Total bonds payable	\$ 17,081,979	\$ -	\$ 493,351	\$ 16,588,628	\$ 585,000
Loans payable	29,700	-	29,700	-	-
Compensated absences	1,039,285	803,319	799,884	1,042,720	54,239
Long-Term Liabilities	\$ 18,150,964	\$ 803,319	\$ 1,322,935	\$ 17,631,348	\$ 639,239

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

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, 2014.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

2. Detailed Notes on All Funds

D. Deferred Inflows of Resources and Unearned Revenue/Deferred Outflows of Resources (Continued)

2. Unearned Revenue/Deferred Inflows of Resources

As of December 31, 2014, there were various components of unearned and unavailable revenue as follows:

	Unearned Revenue	Unavailable Revenue
Delinquent property taxes	\$ -	\$ 153,831
Loans receivable	16,028	-
Intergovernmental	1,170,157	1,630,527
Total Governmental Funds	\$ 1,186,185	\$ 1,784,358

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

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.

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. All new members must participate in the Coordinated Plan and benefits vest after five years of credited service.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years.

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

Two methods are used to compute benefits for 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. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each 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 for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent for each year of service.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014. Public Employees Police and Fire Fund members were required to contribute 10.20 percent of their annual covered salary in 2014. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Funding Policy (Continued)

In 2014, the County was required to contribute the following percentages of annual covered payroll:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	15.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2014	2013	2012
General Employees Retirement Fund	\$ 408,363	\$ 402,524	\$ 391,368
Public Employees Police and Fire Fund	139,659	129,196	124,363
Public Employees Correctional Fund	64,093	57,111	57,780

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers) and the Public Employees Police and Fire Fund (10.80 percent for members and 16.20 percent for employers).

B. Defined Contribution Plan

Five 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.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

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. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the Houston County during the year ended December 31, 2014, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 5,333	\$ 5,333
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

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.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Plan Description (Continued)

Retirees are required to pay 100 percent of the total group rate. Since the premium is a blended rate determined on the entire active and retiree population, the retirees, whose costs are statistically higher than the group average, are receiving an implicit rate “subsidy.” As of January 1, 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 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 2014, 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	13,456
Adjustment to ARC	<u>(18,619)</u>
Annual OPEB cost (expense)	\$ 78,910
Contributions made during the year	<u>(24,281)</u>
Increase in net OPEB obligation	\$ 54,629
Net OPEB Obligation - Beginning of Year	<u>299,018</u>
Net OPEB Obligation - End of Year	<u><u>\$ 353,647</u></u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for the years ended December 31, 2012, 2013, and 2014, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Employer Contribution</u>	<u>Percentage Of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2012	\$ 104,378	\$ 39,280	37.6%	\$ 244,532
December 31, 2013	103,207	48,721	47.2	299,018
December 31, 2014	78,910	24,281	30.8	353,647

Funded Status

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
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.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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 \$480,000 per claim in 2014 and \$490,000 in 2015. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

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

B. Contingent Liabilities

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer the Agricultural Best Management Loan Program to individuals to implement projects that prevent or mitigate nonpoint source water pollution. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2014.

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

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

C. Jointly-Governed Organizations

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

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

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

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 \$87,234 to the program during the year.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

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 \$450 to the Cooperative.

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 \$82,335 to SEMCAC.

The Southeastern Minnesota Library provides regional library services to counties and cities in southeastern Minnesota. During the year, Houston County paid \$134,405 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 \$115,386 to the MCCC.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

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

D. Joint Ventures

Southeast Minnesota Emergency Communications Board

The Southeast Minnesota Emergency Communications Board provides for the regional administration of enhancements to the Statewide Public Safety Radio and Communications System (ARMER). During 2014, Houston County paid \$1,000 to the Board.

Southeastern Minnesota Narcotics Task Force

The Southeastern Minnesota Narcotics Task Force provides drug enforcement services to several counties. During the year, Houston County paid \$8,122 to the Task Force.

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 2014, Houston County provided no funding. In the event of withdrawal from the Collaborative, the withdrawing party shall give a 30-day notice. The withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of termination shall be distributed by the governing board.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 6,176,668	\$ 6,176,668	\$ 6,131,972	\$ (44,696)
Licenses and permits	53,330	53,330	67,480	14,150
Intergovernmental	2,107,681	2,171,408	2,381,643	210,235
Charges for services	1,986,094	1,995,570	1,933,625	(61,945)
Fines and forfeits	6,394	6,394	27,952	21,558
Gifts and contributions	5,000	5,000	4,500	(500)
Investment earnings	107,000	107,000	198,523	91,523
Miscellaneous	345,350	345,350	1,036,466	691,116
Total Revenues	\$ 10,787,517	\$ 10,860,720	\$ 11,782,161	\$ 921,441
Expenditures				
Current				
General government				
Commissioners	\$ 276,880	\$ 276,877	\$ 277,384	\$ (507)
Courts	56,500	56,500	61,028	(4,528)
County auditor	153,452	153,452	152,623	829
Motor vehicle/license bureau	112,721	112,721	112,272	449
County treasurer	153,939	153,939	150,848	3,091
County assessor	346,756	353,787	346,699	7,088
Elections	96,077	101,709	84,229	17,480
Finance director	166,257	163,373	158,213	5,160
Data processing	388,494	388,494	384,522	3,972
Personnel	196,115	196,115	196,483	(368)
Attorney	456,311	455,524	428,594	26,930
Recorder	243,413	305,532	304,060	1,472
Surveyor	185,372	185,372	178,252	7,120
Planning and zoning	273,861	273,236	230,304	42,932
Buildings and plant	505,725	505,725	492,277	13,448
Veterans service officer	128,375	125,250	126,850	(1,600)
GIS	26,800	22,850	22,710	140
Other general government	300,461	309,541	327,398	(17,857)
Total general government	\$ 4,067,509	\$ 4,139,997	\$ 4,034,746	\$ 105,251

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,554,863	\$ 1,588,571	\$ 1,540,871	\$ 47,700
Boat and water safety	12,363	12,363	13,716	(1,353)
Emergency services	90,207	91,100	89,889	1,211
Coroner	52,220	52,220	52,324	(104)
E-911 system	181,452	180,402	180,410	(8)
County jail	1,306,627	1,335,153	1,400,458	(65,305)
Community corrections	199,672	199,672	258,326	(58,654)
Total public safety	\$ 3,397,404	\$ 3,459,481	\$ 3,535,994	\$ (76,513)
Sanitation				
Solid waste	\$ 477,801	\$ 482,801	\$ 497,247	\$ (14,446)
Recycling	339,885	339,885	361,907	(22,022)
Total sanitation	\$ 817,686	\$ 822,686	\$ 859,154	\$ (36,468)
Health				
Nursing services	\$ 1,697,056	\$ 1,725,242	\$ 1,599,049	\$ 126,193
Transportation	12,000	12,000	11,000	1,000
Health center (waivered services)	4,000	4,000	5,000	(1,000)
Total health	\$ 1,713,056	\$ 1,741,242	\$ 1,615,049	\$ 126,193
Culture and recreation				
Historical society	\$ 42,500	\$ 42,500	\$ 42,500	\$ -
Parks	53,217	64,660	60,074	4,586
County/regional library	134,405	134,405	134,405	-
Other culture and recreation	120,000	120,000	152,918	(32,918)
Total culture and recreation	\$ 350,122	\$ 361,565	\$ 389,897	\$ (28,332)

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Conservation of natural resources				
County extension	\$ 176,427	\$ 173,302	\$ 160,489	\$ 12,813
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	22,947	(275)
Total conservation of natural resources	\$ 346,099	\$ 342,974	\$ 330,436	\$ 12,538
Economic development				
Community development	\$ 70,158	\$ 70,158	\$ 203,594	\$ (133,436)
Airport	116,989	116,989	129,109	(12,120)
Other economic development	9,010	9,010	8,646	364
Total economic development	\$ 196,157	\$ 196,157	\$ 341,349	\$ (145,192)
Total Expenditures	\$ 10,888,033	\$ 11,064,102	\$ 11,106,625	\$ (42,523)
Excess of Revenues Over (Under) Expenditures	\$ (100,516)	\$ (203,382)	\$ 675,536	\$ 878,918
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	36,487	36,487
Net Change in Fund Balance	\$ (100,516)	\$ (203,382)	\$ 712,023	\$ 915,405
Fund Balance - January 1	4,992,807	4,992,807	4,992,807	-
Fund Balance - December 31	\$ 4,892,291	\$ 4,789,425	\$ 5,704,830	\$ 915,405

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,436,537	\$ 2,436,537	\$ 2,418,195	\$ (18,342)
Licenses and permits	1,500	1,500	7,690	6,190
Intergovernmental	10,118,132	9,708,401	10,699,376	990,975
Charges for services	199,000	199,000	533,320	334,320
Investment earnings	18,000	18,000	14,542	(3,458)
Miscellaneous	11,988	11,988	24,358	12,370
Total Revenues	\$ 12,785,157	\$ 12,375,426	\$ 13,697,481	\$ 1,322,055
Expenditures				
Current				
Transportation				
Administration	\$ 256,361	\$ 261,058	\$ 261,441	\$ (383)
Maintenance	2,420,590	2,707,702	3,064,351	(356,649)
Construction	8,853,607	8,009,019	8,087,602	(78,583)
Equipment maintenance and shop	1,265,990	1,200,718	1,163,601	37,117
Total transportation	\$ 12,796,548	\$ 12,178,497	\$ 12,576,995	\$ (398,498)
Intergovernmental				
Highways and streets	-	-	230,211	(230,211)
Total Expenditures	\$ 12,796,548	\$ 12,178,497	\$ 12,807,206	\$ (628,709)
Excess of Revenues Over (Under) Expenditures	\$ (11,391)	\$ 196,929	\$ 890,275	\$ 693,346
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	3,000	3,000	6,786	3,786
Net Change in Fund Balance	\$ (8,391)	\$ 199,929	\$ 897,061	\$ 697,132
Fund Balance - January 1	7,424,389	7,424,389	7,424,389	-
Increase (decrease) in inventories	-	-	1,719	1,719
Fund Balance - December 31	\$ 7,415,998	\$ 7,624,318	\$ 8,323,169	\$ 698,851

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,127,616	\$ 1,127,616	\$ 1,116,490	\$ (11,126)
Intergovernmental	2,850,037	2,850,037	2,733,131	(116,906)
Charges for services	139,500	139,500	203,592	64,092
Investment earnings	9,000	9,000	10,027	1,027
Miscellaneous	351,650	351,650	276,424	(75,226)
Total Revenues	\$ 4,477,803	\$ 4,477,803	\$ 4,339,664	\$ (138,139)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,617,200	\$ 1,612,615	\$ 1,775,194	\$ (162,579)
Social services	2,864,842	2,860,347	2,284,915	575,432
Total Expenditures	\$ 4,482,042	\$ 4,472,962	\$ 4,060,109	\$ 412,853
Net Change in Fund Balance	\$ (4,239)	\$ 4,841	\$ 279,555	\$ 274,714
Fund Balance - January 1	1,291,141	1,291,141	1,291,141	-
Fund Balance - December 31	\$ 1,286,902	\$ 1,295,982	\$ 1,570,696	\$ 274,714

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	\$ -	\$ 503,862	\$ 503,862	0.0%	\$ 6,203,278	8.1%
January 1, 2011	-	815,921	815,921	0.0	6,937,733	11.8
January 1, 2014	-	591,403	591,403	0.0	6,566,800	9.0

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2014

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. Excess of Expenditures Over Budget

The following funds had expenditures in excess of appropriations (the legal level of budgetary control) for the year ended December 31, 2014:

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 11,106,625	\$ 11,064,102	\$ 42,523
Road and Bridge Special Revenue Fund	12,807,206	12,178,497	628,709

3. 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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,189,397	\$ 1,189,397	\$ 1,189,581	\$ 184
Intergovernmental	35,590	35,590	37,908	2,318
Total Revenues	\$ 1,224,987	\$ 1,224,987	\$ 1,227,489	\$ 2,502
Expenditures				
Debt service				
Principal	\$ 614,250	\$ 614,250	\$ 490,000	\$ 124,250
Interest	610,737	610,737	585,774	24,963
Administrative (fiscal) charges	-	-	3,425	(3,425)
Total Expenditures	\$ 1,224,987	\$ 1,224,987	\$ 1,079,199	\$ 145,788
Net Change in Fund Balance	\$ -	\$ -	\$ 148,290	\$ 148,290
Fund Balance - January 1	859,976	859,976	859,976	-
Fund Balance - December 31	\$ 859,976	\$ 859,976	\$ 1,008,266	\$ 148,290

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FIDUCIARY FUNDS

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

AGENCY FUNDS

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

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

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

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

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

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

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

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

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

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, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CROOKED CREEK WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 337	\$ 26,571	\$ 26,347	\$ 561
<u>Liabilities</u>				
Due to other governments	\$ 337	\$ 26,571	\$ 26,347	\$ 561
 <u>HEALTH</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 33,370	\$ 59,086	\$ 66,777	\$ 25,679
<u>Liabilities</u>				
Accounts payable	\$ 33,370	\$ 59,086	\$ 66,777	\$ 25,679
 <u>REVOLVING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 42,245	\$ 3,736,938	\$ 3,724,044	\$ 55,139
<u>Liabilities</u>				
Due to other governments	\$ 42,245	\$ 3,736,938	\$ 3,724,044	\$ 55,139

**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, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SOIL AND WATER CONSERVATION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 559,606	\$ 397,493	\$ 468,744	\$ 488,355
<u>Liabilities</u>				
Due to other governments	\$ 559,606	\$ 397,493	\$ 468,744	\$ 488,355
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 142,130	\$ 5,909,836	\$ 5,914,597	\$ 137,369
<u>Liabilities</u>				
Due to other governments	\$ 142,130	\$ 5,909,836	\$ 5,914,597	\$ 137,369
 <u>FAMILY COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 284,390	\$ 85,874	\$ 122,535	\$ 247,729
<u>Liabilities</u>				
Due to other governments	\$ 284,390	\$ 85,874	\$ 122,535	\$ 247,729

**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, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 128,212</u>	<u>\$ 26,598,351</u>	<u>\$ 26,585,246</u>	<u>\$ 141,317</u>
<u>Liabilities</u>				
Accounts payable	\$ 128,212	\$ 6,106,783	\$ 6,093,678	\$ 141,317
Due to other funds	-	12,191,666	12,191,666	-
Due to other governments	-	8,299,902	8,299,902	-
Total Liabilities	<u>\$ 128,212</u>	<u>\$ 26,598,351</u>	<u>\$ 26,585,246</u>	<u>\$ 141,317</u>
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 123,075</u>	<u>\$ 7,276,618</u>	<u>\$ 7,273,225</u>	<u>\$ 126,468</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 123,075</u>	<u>\$ 7,276,618</u>	<u>\$ 7,273,225</u>	<u>\$ 126,468</u>

**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, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>VICTIM SERVICES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 17,622	\$ -	\$ -	\$ 17,622
<u>Liabilities</u>				
Due to other governments	\$ 17,622	\$ -	\$ -	\$ 17,622
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,330,987	\$ 44,090,767	\$ 44,181,515	\$ 1,240,239
<u>Liabilities</u>				
Accounts payable	\$ 161,582	\$ 6,165,869	\$ 6,160,455	\$ 166,996
Due to other funds	-	12,191,666	12,191,666	-
Due to other governments	1,169,405	25,733,232	25,829,394	1,073,243
Total Liabilities	\$ 1,330,987	\$ 44,090,767	\$ 44,181,515	\$ 1,240,239

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, 2014**

Shared Revenue

State

Highway users tax	\$	7,876,450
PERA rate reimbursement		23,938
Disparity reduction aid		130,873
Police aid		99,008
County program aid		873,567
Aquatic invasive species aid		12,626
Market value credit - agricultural		185,803
Enhanced 911		92,829
		92,829

Total shared revenue **\$ 9,295,094**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	563,032
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Payments

Local

Local contributions	\$	3,525
Payments in lieu of taxes		338,021
		338,021

Total payments **\$ 341,546**

Grants

State

Minnesota Department/Board of		
Public Safety	\$	273,212
Health		195,777
Employment and Economic Development		6,178
Natural Resources		159,916
Human Services		1,048,014
Corrections		34,684
Transportation		555,146
Water and Soil Resources		90,766
Revenue		3,529
Veterans Affairs		20,000
Pollution Control Agency		63,803
Peace Officer Standards and Training Board		4,184
		4,184

Total state **\$ 2,455,209**

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**EXHIBIT D-1
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Grants (Continued)

Federal

Department of	
Agriculture	\$ 240,072
Transportation	958,139
Education	2,289
Health and Human Services	1,144,601
Homeland Security	824,712
Environmental Protection Agency	27,364

Total federal **\$ 3,197,177**

Total state and federal grants **\$ 5,652,386**

Total Intergovernmental Revenue **\$ 15,852,058**

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 98,157
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	<u>123,066</u>
Total U.S. Department of Agriculture		<u>\$ 221,223</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Airport Improvement Program	20.106	\$ 5,939
Highway Planning and Construction	20.205	855,685
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	7,738
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>1,997</u>
Total U.S. Department of Transportation		<u>\$ 871,359</u>
U.S. Environmental Protection Agency		
Passed Through Southeast Minnesota Water Resources Board Nonpoint Source Implementation Grants	66.460	<u>\$ 27,364</u>
U.S. Department of Education		
Passed Through Minnesota Department of Health Special Education - Grants for Infants and Families	84.181	<u>\$ 2,289</u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through the National Association of County and City Health Officials Medical Reserve Corps Small Grant Program	93.008	\$ 3,500
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	13,450
Universal Newborn Hearing Screening	93.251	275
Immunization Cooperative Agreements	93.268	4,500
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	75
Temporary Assistance for Needy Families	93.558	33,831
(Total Temporary Assistance for Needy Families 93.558 \$148,983)		
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance - financed in part by the Prevention and Public Health Fund (PPHF)	93.733	2,500
Maternal and Child Health Services Block Grant to the States	93.994	19,470
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	1,892
Temporary Assistance for Needy Families	93.558	115,152
(Total Temporary Assistance for Needy Families 93.558 \$148,983)		
Child Support Enforcement	93.563	288,426
Refugee and Entrant Assistance - State Administered Programs	93.566	821
Child Care and Development Block Grant	93.575	5,096
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1,247
Foster Care - Title IV-E	93.658	87,814
Social Services Block Grant	93.667	91,096
Chafee Foster Care Independence Program	93.674	2,159
Children's Health Insurance Program	93.767	67
Medical Assistance Program	93.778	338,778
Total U.S. Department of Health and Human Services		\$ 1,010,149
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 5,000
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	247,871
Total U.S. Department of Homeland Security		\$ 252,871
Total Federal Awards		\$ 2,385,255

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Houston County under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Houston County, it is not intended to and does not present the financial position or changes in net position of Houston County.

3. Summary of Significant Accounting Policies

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue (Exhibit D-1)	\$	3,197,177
Unavailable revenue in 2013, recognized as revenue in 2014		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program		(22,278)
Airport Improvement Program		(81,219)
Highway Planning and Construction		(57,716)
Temporary Assistance for Needy Families		(10,933)
Child Support Enforcement		(43,386)
Child Care and Development Block Grant		(562)
Foster Care - Title IV-E		(9,413)
Medical Assistance Program		(76,493)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)		(712,887)
Grants received more than 60 days after year-end, unavailable revenue in 2014		
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
		141,046
Expenditures per Schedule of Expenditures of Federal Awards (Exhibit D-2)	\$	2,385,255

5. Subrecipients

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2014.

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **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 programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

Highway Planning and Construction	CFDA #20.205
Child Support Enforcement	CFDA #93.563
Medical Assistance Program	CFDA #93.778

The threshold for distinguishing between Types A and B programs was \$300,000.

Houston County qualified as a low-risk auditee? **No**

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 License Center Department.

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

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

Cause: The County indicated, 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 any possible 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.

PREVIOUSLY REPORTED ITEMS RESOLVED

Audit Reclassifications (2006-001)

The County prepares trial balances which convert the cash basis general ledger to the modified accrual basis necessary for preparing fund level and government-wide financial statements. During our audit, several reclassification entries were necessary to correct the client-prepared trial balances.

Resolution

The client-prepared trial balances and government-wide financial statements did not have any material reclassification entries.

Timeliness of Preparation of Financial Statements (2012-002)

The County-prepared trial balances were not submitted to the auditors in a timely fashion and required numerous revisions affecting both the financial statements and related notes.

Resolution

The County-prepared trial balances were submitted to the auditors in a timely fashion.

Segregation of Duties/Disbursements (2013-002)

The General and Highway Departments did not have controls in place to prevent employees who process vendor payments into the accounting system from adding and paying unapproved expenditures via County check.

Resolution

The Finance Director reviews claims submitted to the warrant register to ensure payments are for approved County expenditures.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

Finding 2014-001

Reporting

Program: U.S. Department of Health and Human Services' Child Support Enforcement (CFDA No. 93.563) and Medical Assistance Program (CFDA No. 93.778)

Pass-Through Agency: Minnesota Department of Human Services

Criteria: The Minnesota Department of Human Services issues instructions (DHS Bulletin #14-32-01) for preparing the Income Maintenance quarterly expense reports (Form DHS-2550). These instructions indicate expenditures reported in Section A (Income Maintenance Random Moment Time Study (IMRMS) Expenditures) are direct costs associated with staff required to participate in the random moment time study. Quarterly salaries of time study participants must be reported. Salaries of individuals who should have been participants but were not included in the quarter's random moment sample should not be included. The salaries of those not included in the IMRMS are to be reported in Section E (Income Maintenance Overhead Expenditures).

Condition: 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.

Questioned Costs: The Minnesota Department of Human Services determines part of the County's federal reimbursement for multiple programs based upon its random moment time study performed and, therefore, any questioned costs could not be determined.

Context: Form DHS-2550 is used by the State of Minnesota Department of Human Services to reimburse the County federal awards for several programs, including the Medical Assistance and Child Support Enforcement programs.

Effect: The County incorrectly reported \$22,484 of salaries and fringe expenditures in the first and third quarters of 2014 on Form DHS-2550 Section A and Section E. This was projected to a total of \$44,967 for 2014.

Cause: The County indicated due to new employees, incorrect procedures were followed in reporting employee time in Section A and E on the DHS-2550 report.

Recommendation: We recommend the County implement procedures to review the list of employees on the random moment time study and report only these participants in Section A of Form DHS-2550. Those employees not listed on the IMRMS should be reported in Section E of Form DHS-2550.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Heidi Hankins

Corrective Action Planned:

Houston County has reviewed applicable bulletins for interpretation and training to facilitate proper reporting for IMRMS participants. Employee roles have been reviewed and changes have been made for 2015 so that accurate reporting of Section A and Section E participants occurs. Employee roles will be closely monitored to ensure any changes in status will also be reflected in reporting.

Anticipated Completion Date:

August 11, 2015

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

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: Two of 25 invoices tested for compliance with this statute were 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.

Finding 2014-003

Collateral Assignments

Criteria: Minn. Stat. § 118A.03 states that “[a]ny collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution. The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged.” Finally, to be enforceable under federal law (12 U.S.C. § 1823(e)), this written assignment must be approved by the depository’s board of directors or loan committee and must be an official record of the depository.

Condition: Two of the County’s depositories have not provided a written assignment for collateral pledged to secure County deposits.

Context: To secure deposits in excess of the available federal deposit insurance, both depositories have pledged securities from their investment portfolio as collateral. Absent from the pledging documents, however, is a written assignment of the collateral to the County.

Effect: Without an approved written assignment of the pledged collateral, the County does not have a perfected security interest in the pledged collateral. Deposits held in excess of federal deposit insurance are at risk of loss should a depository fail.

Cause: The County has indicated that it was unaware that the pledging documents were insufficient to obtain a perfected security interest in the pledged collateral.

Recommendation: We recommend the County require that its depositories provide written assignments for all collateral pledged. The assignments should include the statutory language required by Minn. Stat. § 118A.03, subd. 4, and should be approved by each bank’s board of directors or loan committee with the County receiving documentation of that approval.

Client’s Response:

The County Treasurer has reviewed the requirements set forth in Minn. Stat. § 118A.03, subd. 4, and has developed procedures to ensure compliance.

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 have met 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.

C. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the County's government-wide statement of financial position. The County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Houston County's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.



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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, 2014, 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 29, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Houston County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2008-002 and 2013-001, that we consider to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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 Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as items 2014-002 and 2014-003. 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

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

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 29, 2015

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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) *Circular A-133 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, 2014. 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 the requirements of laws, regulations, contracts, and grants applicable to each of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Houston County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion 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, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001. Our opinion on the major federal programs identified in the finding 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001, that we consider to be a significant deficiency.

Houston County's response to the internal control over compliance finding identified in our audit is described in the accompanying 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.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 29, 2015

/s/Greg Hierlinger

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