

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

HOUSTON COUNTY
CALEDONIA, MINNESOTA

YEAR ENDED DECEMBER 31, 2013

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

Year Ended December 31, 2013



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

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

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CALEDONIA, MINNESOTA**

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2013**

			<u>Term Expires</u>
Elected			
Commissioners			
Board Member	Judy Storlie	District 1	January 2017
Chair	Justin Zmyewski ¹	District 2	January 2015
Board Member	Steve Schuldt	District 3	January 2017
Vice Chair	Teresa Walter ²	District 4	January 2015
Board Member	Dana Kjome	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 2014
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 2013

²Vice Chair 2013

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Houston County

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 as of and for the year ended December 31, 2013, 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, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2014, 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

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 24, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(Unaudited)**

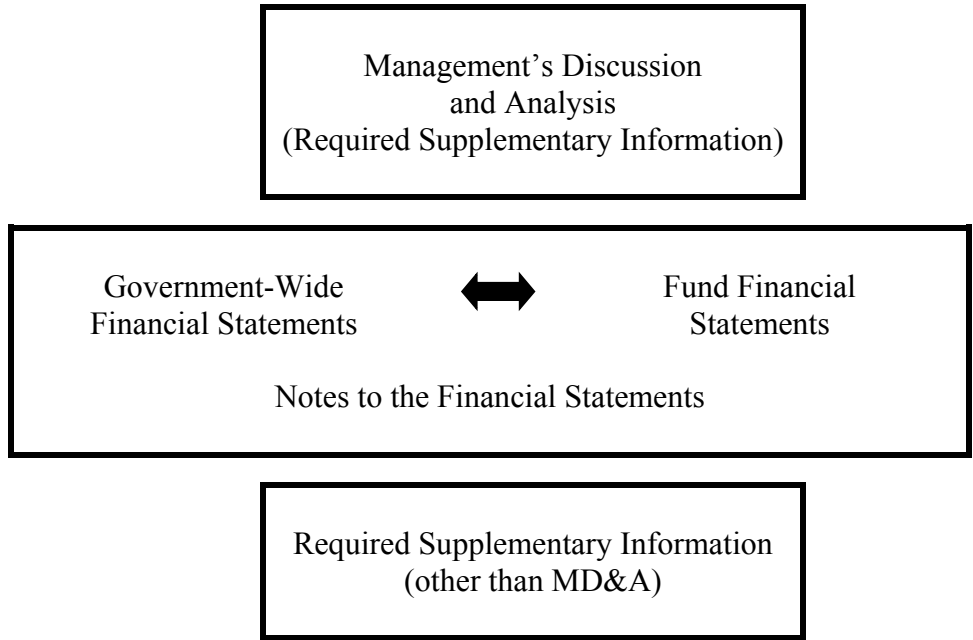
Houston County's discussion and analysis provides an overview of the County's financial activities for the fiscal year ended December 31, 2013. Since this information is designed to focus on current year activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position are \$78,482,527, of which \$59,898,955 is in net investment in capital assets and \$5,373,513 is restricted to specific purposes.
- Houston County's net position decreased by \$361,427 for the year ended December 31, 2013.
- The net cost of governmental activities for the current fiscal year was \$12,438,129. The net cost was funded by general revenues, including taxes and grants.
- Governmental funds' fund balances increased by \$66,947.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements. Houston County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) 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 \$361,427 from \$78,843,954 to \$78,482,527.

Table 1
Net Position
(in Millions)

	<u>2013</u>	<u>2012</u>
Assets		
Current and other assets	\$ 22.7	\$ 24.0
Capital assets	<u>77.0</u>	<u>77.1</u>
Total Assets	<u>\$ 99.7</u>	<u>\$ 101.1</u>
Liabilities		
Long-term debt outstanding	\$ 18.4	\$ 18.8
Other liabilities	<u>2.8</u>	<u>3.5</u>
Total Liabilities	<u>\$ 21.2</u>	<u>\$ 22.3</u>
Net Position		
Net investment in capital assets	\$ 59.9	\$ 59.3
Restricted	5.4	6.7
Unrestricted	<u>13.2</u>	<u>12.8</u>
Total Net Position	<u>\$ 78.5</u>	<u>\$ 78.8</u>

Net position of the County's governmental activities decreased by 0.5 percent (\$78,482,527 compared to \$78,843,954).

Table 2
Changes in Net Position
(in Millions)

	<u>2013</u>	<u>2012</u>
Revenues		
Program revenues		
Fees, fines, charges, and other	\$ 2.8	\$ 2.5
Operating grants and contributions	12.0	12.7
Capital grants and contributions	1.7	0.9
General revenues		
Property taxes	10.1	9.6
Other taxes and payments in lieu of taxes	0.5	0.5
Grants and contributions	1.1	1.2
Other general revenues	<u>0.4</u>	<u>0.6</u>
Total Revenues	<u>\$ 28.6</u>	<u>\$ 28.0</u>

	2013	2012
Program expenses		
General government	\$ 4.0	\$ 3.9
Public safety	3.8	3.7
Transportation	12.5	8.8
Human services	4.4	3.9
Health	1.7	1.7
Sanitation	0.8	0.8
Culture and recreation	0.3	0.3
Conservation of natural resources	0.3	0.4
Economic development	0.6	0.3
Interest	0.6	0.7
	<hr/>	<hr/>
Total Program Expenses	\$ 29.0	\$ 24.5
	<hr/>	<hr/>
Increase (Decrease) in Net Position	\$ (0.4)	\$ 3.5

Governmental Activities

The cost of all governmental activities this year was \$28,993,601. However, as shown in the Statement of Activities, the amount that the taxpayers ultimately financed for these activities through County property taxes was only \$10,072,644, because some of the cost was paid by those who directly benefited from the programs (\$2,828,486) or by other governments and organizations that subsidized certain programs with grants and contributions (\$13,726,986). The County paid for the remaining “public benefit” portion of governmental activities with \$12,076,702 in general revenues, primarily property taxes and other revenues, such as interest and general entitlements, resulting in a decrease to net position of \$361,427.

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

Table 3
Governmental Activities
(in Millions)

	Total Cost of Services		Net Cost of Services	
	2013	2012	2013	2012
Transportation	\$ 12.4	\$ 8.8	\$ 3.0	\$ (0.2)
Human services	4.4	3.9	1.3	1.2
General government	4.0	3.9	3.3	2.9
Public safety	3.8	3.7	3.3	2.8

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, 2013, Houston County's governmental funds reported combined ending fund balances of \$14,568,313, an increase of \$66,947 in comparison with 2012. The County is reporting an unassigned fund balance of \$4,114,594 in 2013. 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, 2013, unassigned fund balance was \$4,114,594, while total fund balance was \$4,992,807. 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 37.4 percent of total General Fund expenditures, while total fund balance represents 45.4 percent of the same amount. While the 2013 General Fund final budget reflected a \$364,608 use of fund balance, the General Fund final balance was still able to end the year adding \$46,008 to fund balance. A scaled down Airport runway repaving project accounted for the majority of the expenditure reduction.

The Road and Bridge Special Revenue Fund's fund balance increased by \$142,316 to \$7,424,389, of which \$5,189,139 is assigned. The Road and Bridge Department saw increased revenues in the form of reimbursements from FEMA and the Federal Highway Administration for the 2013 flood disaster of which a few of those projects will not be completed until 2014. There were also slightly higher revenues for construction projects resulting from carryover projects from 2012. On the expenditure side, the Road and Bridge Department had a few maintenance projects (bridge repairs) postponed until 2014 due to staff working on flood repairs which contributed to the increase in the fund balance. Money levied for two future CR 249 bridge projects is also included in the fund balance figure.

The Social Services Special Revenue Fund's fund balance decreased by \$168,503 to \$1,291,141, of which all is assigned. Human Services funded a non-budgeted Electronic Document Management System for the Income Maintenance Department in 2013 requiring the use of \$134,662 of fund balance.

General Fund Budgetary Highlights

Houston County revised its General Fund budget during 2013, decreasing both expected revenues and appropriations by 2.6 and 1.6 percent, respectively. For the year ended December 31, 2013, expenditures were less than final budget by \$469,316.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the County had \$76,980,933 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net decrease (including additions and deductions) of \$119,510, or 0.16 percent, under last year.

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

	<u>2013</u>	<u>2012</u>
Land	\$ 3.2	\$ 3.0
Construction in progress	2.1	0.8
Buildings and improvements	18.9	19.4
Machinery, vehicles, furniture, and equipment	2.8	2.9
Infrastructure	<u>50.0</u>	<u>51.0</u>
Totals	<u>\$ 77.0</u>	<u>\$ 77.1</u>

Long-Term Debt

At the end of the current fiscal year, the County had total general obligation bonds outstanding in the amount of \$17,111,679 as shown in Table 5. More detailed information about the County's long-term liabilities is presented in Note 3.C. to the financial statements.

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

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
G. O. bonds	<u>\$ 17.1</u>	<u>\$ 17.5</u>

Other obligations include loans payable, compensated absences, and other postemployment benefits. Houston County issued no additional debt in 2013.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2013 budget, tax rates, and fees that will be charged for the government-type activities.

- The unemployment rate in Houston County increased, moving from 6.3 percent in 2012 to 7.7 percent in 2013 for the annual average. This is higher than the U.S. average of 7.35 percent and the rate the Minnesota rate of 5.6 percent.
- County General Fund expenditures for 2014 are budgeted to decrease 0.17 percent from the 2013 level.
- Houston County's population decreased by 5.8 percent from 2003 to 2013, compared to an increase of 6.5 percent in Minnesota as a whole. Citizens age 65+ comprise 17.66 percent of the County's population.
- The proposed property tax levy has increased 3.52 percent for 2014.
- During 2014, Houston County officials will be 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, 2013**

Assets

Cash and pooled investments	\$	10,763,434
Petty cash and change funds		17,160
Investments		2,787,380
Taxes receivable		
Prior - net		220,121
Accounts receivable - net		230,918
Accrued interest receivable		25,354
Loan receivable		910,486
Due from other governments		7,263,280
Inventories		504,054
Prepaid items		8,650
Capital assets		
Non-depreciable		5,294,785
Depreciable - net of accumulated depreciation		71,686,148
		99,711,770
Total Assets	\$	99,711,770

Liabilities

Accounts payable	\$	359,996
Salaries payable		409,047
Contracts payable		371,947
Due to other governments		175,336
Accrued interest payable		249,351
Unearned revenue		1,192,363
Customer deposits		21,221
Long-term liabilities		
Due within one year		556,809
Due in more than one year		17,893,173
		21,229,243
Total Liabilities	\$	21,229,243

Net Position

Net investment in capital assets	\$	59,898,955
Restricted for		
General government		229,696
Public safety		177,041
Debt service		859,976
Highways and streets		3,927,325
Economic development		179,475
Unrestricted		13,210,059
		78,482,527
Total Net Position	\$	78,482,527

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, 2013**

	Expenses	Program Revenues			Net (Expense) Revenues and Change in Net Position
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	
<u>Functions/Programs</u>					
Primary government					
Governmental activities					
General government	\$ 3,983,552	\$ 403,512	\$ 317,865	\$ -	\$ (3,262,175)
Public safety	3,788,865	164,633	340,629	-	(3,283,603)
Transportation	12,436,079	126,153	8,013,595	1,267,910	(3,028,421)
Sanitation	833,116	467,420	58,363	-	(307,333)
Human services	4,431,265	557,178	2,531,547	-	(1,342,540)
Health	1,689,333	1,063,572	359,358	-	(266,403)
Culture and recreation	308,747	40,358	-	-	(268,389)
Conservation of natural resources	316,582	3,447	-	-	(313,135)
Economic development	605,821	2,213	412,828	424,891	234,111
Interest	600,241	-	-	-	(600,241)
Total Governmental Activities	\$ 28,993,601	\$ 2,828,486	\$ 12,034,185	\$ 1,692,801	\$ (12,438,129)
General Revenues					
Property taxes					\$ 10,072,644
Mortgage registry and deed tax					14,087
Other taxes					198,137
Payments in lieu of tax					335,824
Grants and contributions not restricted to specific programs					1,068,573
Unrestricted investment earnings					56,297
Miscellaneous					327,048
Gain on sale of capital assets					4,092
Total general revenues					\$ 12,076,702
Change in net position					\$ (361,427)
Net Position - Beginning					78,843,954
Net Position - Ending					\$ 78,482,527

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, 2013**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 3,216,514	\$ 5,930,619	\$ 765,108	\$ 851,193	\$ 10,763,434
Petty cash and change funds	17,060	100	-	-	17,160
Investments	596,142	1,491,238	700,000	-	2,787,380
Taxes receivable					
Prior	127,622	47,479	23,723	21,297	220,121
Accounts receivable	81,870	1,238	147,810	-	230,918
Loans receivable	910,486	-	-	-	910,486
Accrued interest receivable	21,056	3,431	867	-	25,354
Due from other funds	6,899	-	-	-	6,899
Due from other governments	667,411	6,186,730	409,139	-	7,263,280
Prepaid expense	8,650	-	-	-	8,650
Inventories	-	504,054	-	-	504,054
Total Assets	\$ 5,653,710	\$ 14,164,889	\$ 2,046,647	\$ 872,490	\$ 22,737,736
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 98,994	\$ 110,856	\$ 150,146	\$ -	\$ 359,996
Salaries payable	260,532	75,547	72,968	-	409,047
Contracts payable	-	371,947	-	-	371,947
Due to other funds	-	-	6,899	-	6,899
Due to other governments	16,074	3,986	155,276	-	175,336
Unearned revenue	22,206	1,127,000	43,157	-	1,192,363
Customer deposits	21,221	-	-	-	21,221
Total Liabilities	\$ 419,027	\$ 1,689,336	\$ 428,446	\$ -	\$ 2,536,809
Deferred Inflows of Resources					
Unavailable revenue (Note 3.D.)	\$ 241,876	\$ 5,051,164	\$ 327,060	\$ 12,514	\$ 5,632,614

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> (Continued)					
Fund Balances					
Nonspendable					
Prepaid items	\$ 8,650	\$ -	\$ -	\$ -	\$ 8,650
Long-term loans/notes receivable	283,351	-	-	-	283,351
Inventories	-	504,054	-	-	504,054
Restricted for					
Debt service	-	-	-	859,976	859,976
Recorder's technology equipment	86,879	-	-	-	86,879
Recorder's compliance	134,518	-	-	-	134,518
E-911	84,557	-	-	-	84,557
Economic development loans	179,475	-	-	-	179,475
Conceal and carry	76,755	-	-	-	76,755
Sheriff's DUI forfeiture	15,729	-	-	-	15,729
Attorney forfeited property	8,299	-	-	-	8,299
Road and bridge projects	-	155,741	-	-	155,741
Committed					
Road and bridge projects	-	1,575,455	-	-	1,575,455
Assigned					
Road and bridge	-	5,189,139	-	-	5,189,139
Human services	-	-	1,291,141	-	1,291,141
Unassigned	4,114,594	-	-	-	4,114,594
Total Fund Balances	\$ 4,992,807	\$ 7,424,389	\$ 1,291,141	\$ 859,976	\$ 14,568,313
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 5,653,710	\$ 14,164,889	\$ 2,046,647	\$ 872,490	\$ 22,737,736

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

Fund balances - total governmental funds (Exhibit 3)	\$ 14,568,313
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.	76,980,933
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	5,632,614
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Loans payable	\$ (29,700)
Bonds payable	(17,055,000)
Bond discount	41,055
Bond premium	(68,034)
Accrued interest payable	(249,351)
Net OPEB obligation	(299,018)
Compensated absences	(1,039,285)
	<u>(18,699,333)</u>
Net Position of Governmental Activities (Exhibit 1)	<u><u>\$ 78,482,527</u></u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues					
Taxes	\$ 5,807,569	\$ 2,229,877	\$ 1,144,137	\$ 1,091,626	\$ 10,273,209
Licenses and permits	78,120	7,730	-	-	85,850
Intergovernmental	2,742,381	10,322,088	2,533,148	36,408	15,634,025
Charges for services	2,013,861	324,049	118,194	-	2,456,104
Fines and forfeits	23,675	-	-	-	23,675
Gifts and contributions	3,750	-	-	-	3,750
Investment earnings	29,461	17,005	9,813	18	56,297
Miscellaneous	348,259	29,031	414,163	-	791,453
Total Revenues	\$ 11,047,076	\$ 12,929,780	\$ 4,219,455	\$ 1,128,052	\$ 29,324,363
Expenditures					
Current					
General government	\$ 3,908,928	\$ -	\$ -	\$ -	\$ 3,908,928
Public safety	3,357,753	-	-	-	3,357,753
Transportation	-	12,456,945	-	-	12,456,945
Sanitation	813,830	-	-	-	813,830
Human services	-	-	4,387,958	-	4,387,958
Health	1,692,321	-	-	-	1,692,321
Culture and recreation	307,656	-	-	-	307,656
Conservation of natural resources	315,833	-	-	-	315,833
Economic development	602,041	-	-	-	602,041
Intergovernmental	-	222,274	-	-	222,274
Debt service					
Principal	-	-	-	485,000	485,000
Interest	-	-	-	593,200	593,200
Administrative (fiscal) charges	-	-	-	7,424	7,424
Total Expenditures	\$ 10,998,362	\$ 12,679,219	\$ 4,387,958	\$ 1,085,624	\$ 29,151,163
Excess of Revenues Over (Under Expenditures)	\$ 48,714	\$ 250,561	\$ (168,503)	\$ 42,428	\$ 173,200
Other Financing Sources (Uses)					
Transfers in	\$ -	\$ -	\$ -	\$ 4,698	\$ 4,698
Transfers out	(4,698)	-	-	-	(4,698)
Proceeds from sale of capital assets	1,992	2,100	-	-	4,092
Total Other Financing Sources (Uses)	\$ (2,706)	\$ 2,100	\$ -	\$ 4,698	\$ 4,092
Net Change in Fund Balance	\$ 46,008	\$ 252,661	\$ (168,503)	\$ 47,126	\$ 177,292
Fund Balance - January 1	4,946,799	7,282,073	1,459,644	812,850	14,501,366
Increase (decrease) in inventories	-	(110,345)	-	-	(110,345)
Fund Balance - December 31	\$ 4,992,807	\$ 7,424,389	\$ 1,291,141	\$ 859,976	\$ 14,568,313

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

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**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, 2013**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 177,292

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	\$ 5,632,614	
Deferred inflows of resources - January 1	<u>(6,328,895)</u>	(696,281)

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	\$ 2,284,966	
Net book value of assets disposed	(3,569)	
Current year depreciation	<u>(2,400,907)</u>	(119,510)

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	\$ 485,000	
Loans	12,300	
Current year amortization of discounts and premiums	<u>3,351</u>	500,651

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	\$ (55,780)	
Change in accrued interest payable	(2,968)	
Change in net OPEB obligation	(54,486)	
Change in inventories	<u>(110,345)</u>	<u>(223,579)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ (361,427)

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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, 2013**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 1,330,987</u>
<u>Liabilities</u>	
Accounts payable	\$ 161,582
Due to other governments	<u>1,169,405</u>
Total Liabilities	<u><u>\$ 1,330,987</u></u>

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013. 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.

Changes in Accounting Principles

During 2013, Houston County adopted new accounting guidance by implementing the provisions of GASB Statements 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, modifies and clarifies the requirements for inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources and inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.8. for additional information regarding the County's deferred outflows/inflows of resources.

Restatements of December 31, 2012, net position or fund balance were not required as a result of adopting these changes in accounting principles.

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.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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.	Separate financial statements are not prepared.

Joint Ventures

The County participates in joint ventures described in Note 5.D. The County also participates in jointly-governed organizations described in Note 5.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.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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.

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 required to be accounted for in another fund.

The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, 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 the federal, state, and other oversight agencies, as well as committed property tax revenues used for economic assistance and community social services programs.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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.

The Capital Projects Fund is used to account for financial resources committed for the construction of the Criminal Justice Center. This fund was closed in 2013.

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.

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.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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, 2013, 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 2013 were \$160,739.

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.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories and Prepaid Items (Continued)

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.

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 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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Compensated Absences (Continued)

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.

6. Unearned Revenue

All County funds and the government-wide financial statements defer 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 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.

**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)

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 period(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 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 and the component unit 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 invested in capital assets, net of related debt.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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 legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

Committed - amounts the County intends to use for the specific purposes imposed by formal action (ordinance or 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 (ordinance or 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.

**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)

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.

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.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The Social Services Special Revenue Fund expenditures of \$4,387,958 exceeded the final budget of \$4,222,033 by \$165,925 due to not budgeting for the EDMS project.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. 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	\$ 10,763,434
Petty cash and change funds	17,160
Investments	2,787,380
Statement of fiduciary net position	
Cash and pooled investments	<u>1,330,987</u>
 Total Cash and Investments	 <u>\$ 14,898,961</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**

3. 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, 2013, the County does not have any deposits exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (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**

3. 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>2 - 3 Years</u>	<u>3 - 13 Years</u>
Fannie Mae	\$ 236,525	\$ -	\$ -	\$ 236,525
Municipal Bonds	1,037,872	-	207,012	830,860
Negotiable certificates of deposit	2,356,842	491,256	351,563	1,514,023
Total Investments	<u>\$ 3,631,239</u>	<u>\$ 491,256</u>	<u>\$ 558,575</u>	<u>\$ 2,581,408</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**

3. 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>
Fannie Mae	AA+	Standard & Poor's	\$ 236,525
Municipal Bonds	AAA/AA/AA-	Standard & Poor's	1,037,872

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 (SIPC) coverage plus any excess coverage if provided. At December 31, 2013, 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**

3. 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>
Municipal Bonds	28.6%	\$ 1,037,872
American Express Bank	6.9	249,372
Sallie Mae Bank	5.5	199,327
Goldman Sachs Bank	7.0	254,356
GE Capital Bank	6.8	246,552

2. Receivables

Receivables as of December 31, 2013, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Accounts receivable, gross	\$ 671,148
Less: allowance for uncollectible	<u>(440,230)</u>
Net Accounts Receivable	<u>\$ 230,918</u>

Net receivables for governmental activities are collectible within the year.

Of the loans receivable, \$758,358 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 \$604,776 in flood loans not scheduled for collection in the subsequent year. The remaining loans receivable balance of \$152,128 are for economic development loans, of which \$120,834 is not scheduled for collection in the subsequent year.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,145,973	\$ -	\$ -	\$ 1,145,973
Land - infrastructure right-of-way	1,607,977	164,718	-	1,772,695
Land improvements	251,088	-	-	251,088
Construction in progress - infrastructure	823,135	1,765,976	464,082	2,125,029
Total capital assets not depreciated	<u>\$ 3,828,173</u>	<u>\$ 1,930,694</u>	<u>\$ 464,082</u>	<u>\$ 5,294,785</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	5,979,947	354,272	59,294	6,274,925
Infrastructure	92,861,588	464,082	4,593	93,321,077
Total capital assets depreciated	<u>\$ 119,996,287</u>	<u>\$ 818,354</u>	<u>\$ 63,887</u>	<u>\$ 120,750,754</u>
Less: accumulated depreciation for				
Buildings	\$ 1,040,258	\$ 377,625	\$ -	\$ 1,417,883
Building improvements	657,900	31,725	-	689,625
Other improvements	88,317	12,445	-	100,762
Machinery, furniture, and equipment	3,114,855	447,964	56,286	3,506,533
Infrastructure	41,822,687	1,531,148	4,032	43,349,803
Total accumulated depreciation	<u>\$ 46,724,017</u>	<u>\$ 2,400,907</u>	<u>\$ 60,318</u>	<u>\$ 49,064,606</u>
Total capital assets depreciated, net	<u>\$ 73,272,270</u>	<u>\$ (1,582,553)</u>	<u>\$ 3,569</u>	<u>\$ 71,686,148</u>
Governmental Activities Capital Assets, Net	<u>\$ 77,100,443</u>	<u>\$ 348,141</u>	<u>\$ 467,651</u>	<u>\$ 76,980,933</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General government	\$ 108,014
Public safety	444,775
Highways and streets, including depreciation of infrastructure assets	1,810,487
Sanitation	19,253
Culture and recreation	1,091
Economic development	17,287
Total Depreciation Expense - Governmental Activities	<u>\$ 2,400,907</u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2013, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Human Services	\$ 6,899

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2013, consisted of the following:

Fund From	Fund To	Amount	
General Fund	Capital Projects	\$ 4,698	Criminal Justice Center construction

C. Liabilities

1. Construction Commitments

Houston County has an active construction project as of December 31, 2013. The project includes the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities Roads and bridges	\$ 1,447,150	\$ 958,191

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

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 are deferred until January 2013 when monthly payments of \$1,205, including interest at 6.0 percent, will be made until March 2016. Total payments due from 2014 to 2016, including interest of \$2,075 at December 31, 2013, are \$31,775. The loan payments will be made in the General Fund.

Loans payable requirements at December 31, 2013, were as follows:

<u>Year Ending December 31</u>	<u>State Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 13,033	\$ 1,427
2015	13,837	624
2016	2,830	24
Total	<u>\$ 29,700</u>	<u>\$ 2,075</u>

3. Bonded Debt

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2013</u>
General obligation bonds and notes					
2009B G.O. Capital Improvement Plan Bonds	2019	\$178,793 - \$462,144	2.00 - 3.25	\$ 2,865,000	\$ 2,215,000
2009C G.O. Jail Bonds	2030	\$66,717 - \$821,600	3.00 - 4.00	7,250,000	7,250,000
2010A G.O. Capital Improvement Plan Bonds	2022	\$74,534 - \$441,585	1.05 - 3.45	2,695,000	2,370,000
2010B G.O. Jail Bonds	2031	\$214,006 - \$1,396,950	4.00 - 4.25	<u>5,220,000</u>	<u>5,220,000</u>
Total General Obligation Bonds and Notes				<u>\$ 18,030,000</u>	<u>\$ 17,055,000</u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2013, were as follows:

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2014	\$ 490,000	\$ 585,774
2015	585,000	576,241
2016	600,000	563,546
2017	615,000	547,761
2018	780,000	528,425
2019 - 2023	4,545,000	2,245,598
2024 - 2028	5,570,000	1,343,813
2029 - 2031	3,870,000	246,753
Total	<u>\$ 17,055,000</u>	<u>\$ 6,637,911</u>

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
2009B G.O. Capital Improvement Plan Bonds	\$ 2,375,000	\$ -	\$ 160,000	\$ 2,215,000	\$ 295,000
2009C G.O. Jail Bonds	7,250,000	-	-	7,250,000	-
2010A G.O. Capital Improvement Plan Bonds	2,695,000	-	325,000	2,370,000	195,000
2010B G.O. Jail Bonds	5,220,000	-	-	5,220,000	-
Premium on bonds	74,676	-	6,642	68,034	-
Less: discount on bonds	(44,346)	-	(3,291)	(41,055)	-
Total bonds payable	\$ 17,570,330	\$ -	\$ 488,351	\$ 17,081,979	\$ 490,000
Loans payable	42,000	-	12,300	29,700	13,033
Compensated absences	983,505	868,748	812,968	1,039,285	53,776
Net OPEB obligation	244,532	103,207	48,721	299,018	-
Long-Term Liabilities	<u>\$ 18,840,367</u>	<u>\$ 971,955</u>	<u>\$ 1,362,340</u>	<u>\$ 18,449,982</u>	<u>\$ 556,809</u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

D. Deferred Inflows/Outflows of Resources

1. Deferred Outflows

There were no deferred outflows of resources for the year ended December 31, 2013.

2. Deferred Inflows

As of December 31, 2013, there were various components of unavailable revenue as follows:

Delinquent property taxes	\$ 133,761
Intergovernmental	<u>5,498,853</u>
Total Unavailable Revenue	<u>\$ 5,632,614</u>

4. 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 three years of credited service (five years for those first eligible for membership after June 30, 2010).

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

4. 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. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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 of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For 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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

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 are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2013:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2013, 2012, and 2011, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
General Employees Retirement Fund	\$ 402,524	\$ 391,368	\$ 389,417
Public Employees Police and Fire Fund	129,196	124,363	127,710
Public Employees Correctional Fund	57,111	57,780	51,882

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

B. Defined Contribution Plan

Five of 10 eligible employees have elected coverage by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. 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.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by Houston County during the year ended December 31, 2013, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,955	\$ 4,955
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.

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, 2013, there was one retiree receiving health benefits from the County's health plan.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligations

The County's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for 2013, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

ARC	\$ 107,284
Interest on net OPEB obligations	11,004
Adjustment to ARC	<u>(15,081)</u>
Annual OPEB Cost	\$ 103,207
Contribution during the year	<u>(48,721)</u>
Increase in net OPEB obligation	\$ 54,486
Net OPEB - Beginning of Year	<u>244,532</u>
Net OPEB - End of Year	<u>\$ 299,018</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended December 31, 2011-2013, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2011	\$ 105,693	\$ 25,013	23.7%	\$ 179,434
December 31, 2012	104,378	39,280	37.6	244,532
December 31, 2013	103,207	48,721	47.2	299,018

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2011	\$ -	\$ 815,921	\$ 815,921	0.0%	\$ 6,937,733	11.8%

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

Actuarial Methods and Assumptions

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

In the January 1, 2011, 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 8.0 percent initially, reduced incrementally to an ultimate rate of six percent after six years. The initial unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30-year period beginning in 2008.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

5. 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 \$470,000 per claim in 2013 and \$480,000 in 2014. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

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

B. Contingent Liabilities

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer the Agricultural Best Management Loan Program to individuals to implement projects that prevent or mitigate nonpoint source water pollution. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2013.

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

C. Jointly-Governed Organizations

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

The Southeast Minnesota Water Resources Board 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 (SERHSEM) 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 SERHSEM 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.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

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 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 \$57,995 to the program during the year.

The Southeast Minnesota Immunization Connection (SEMIC) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. The County did not contribute to the SEMIC during the year.

The Southeast Services Cooperative delivers numerous services to support administrative and instructional functions to its members and to improve learning opportunities. During the year, the County made payments of \$150 to the Cooperative.

The Workforce Development provides various job training services to several counties. During the year, Houston County paid \$82,052 to the Workforce Development.

The Southeast Minnesota Community Action Council (SEMCAC) provides various social services emergency assistance services to several counties. It also provides housing and redevelopment for Houston County through Bluff Country. During the year, Houston County paid \$88,268 to SEMCAC.

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

The Southeastern Minnesota Library provides regional library services to counties and cities in southeastern Minnesota. During the year, Houston County paid \$130,490 to the Library.

The Minnesota Counties Computer Cooperative (MCCC) provides computer programming services to several Minnesota counties. During the year, Houston County paid \$111,052 to the MCCC.

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 2013, 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 \$6,000 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 2013, 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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Family Services Collaborative (Continued)

of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of termination shall be distributed by the governing board.

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

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

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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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 6,024,383	\$ 5,802,835	\$ 5,807,569	\$ 4,734
Licenses and permits	45,030	45,030	78,120	33,090
Intergovernmental	2,502,798	2,724,346	2,742,381	18,035
Charges for services	1,996,945	1,996,945	2,013,861	16,916
Fines and forfeits	6,394	6,394	23,675	17,281
Gifts and contributions	5,500	5,500	3,750	(1,750)
Investment earnings	109,000	109,000	29,461	(79,539)
Miscellaneous	710,020	413,020	348,259	(64,761)
Total Revenues	\$ 11,400,070	\$ 11,103,070	\$ 11,047,076	\$ (55,994)
Expenditures				
Current				
General government				
Commissioners	\$ 303,882	\$ 303,882	\$ 220,142	\$ 83,740
Courts	62,000	62,000	61,536	464
County auditor	153,438	153,438	149,175	4,263
Motor vehicle/license bureau	111,460	111,460	109,496	1,964
County treasurer	154,651	154,651	148,605	6,046
County assessor	349,014	349,014	348,528	486
Elections	56,268	56,268	55,541	727
Finance director	164,287	164,287	159,860	4,427
Data processing	330,862	393,738	385,519	8,219
Personnel	194,859	194,859	195,862	(1,003)
Attorney	441,909	441,909	444,038	(2,129)
Recorder	242,717	295,007	290,393	4,614
Surveyor	186,112	186,112	176,928	9,184
Planning and zoning	268,882	268,882	237,835	31,047
Buildings and plant	530,621	530,621	495,239	35,382
Veterans service officer	118,331	118,331	121,411	(3,080)
Other general government	306,844	306,844	308,820	(1,976)
Total general government	\$ 3,976,137	\$ 4,091,303	\$ 3,908,928	\$ 182,375

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<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	\$ 1,484,229	\$ 1,484,229	\$ 1,475,830	\$ 8,399
Boat and water safety	13,459	13,459	10,916	2,543
Emergency services	-	-	126,268	(126,268)
Coroner	52,220	52,220	52,324	(104)
E-911 system	206,210	206,210	148,190	58,020
County jail	1,164,852	1,164,852	1,325,318	(160,466)
Community corrections	193,805	193,805	129,320	64,485
Civil defense	90,588	90,588	89,587	1,001
Total public safety	\$ 3,205,363	\$ 3,205,363	\$ 3,357,753	\$ (152,390)
Sanitation				
Solid waste	\$ 478,429	\$ 478,429	\$ 475,284	\$ 3,145
Recycling	341,900	341,900	338,546	3,354
Total sanitation	\$ 820,329	\$ 820,329	\$ 813,830	\$ 6,499
Health				
Nursing services	\$ 1,910,758	\$ 1,613,758	\$ 1,676,321	\$ (62,563)
Transportation	12,000	12,000	12,000	-
Health center (waivered services)	4,000	4,000	4,000	-
Total health	\$ 1,926,758	\$ 1,629,758	\$ 1,692,321	\$ (62,563)
Culture and recreation				
Historical society	\$ 42,500	\$ 42,500	\$ 42,500	\$ -
Parks	30,959	52,959	29,180	23,779
County/regional library	130,490	130,490	130,490	-
Other culture and recreation	120,000	120,000	105,486	14,514
Total culture and recreation	\$ 323,949	\$ 345,949	\$ 307,656	\$ 38,293

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<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	\$ 157,925	\$ 157,925	\$ 157,296	\$ 629
Soil and water conservation	119,359	119,359	119,359	-
Agriculture society/County fair	18,000	18,000	18,025	(25)
Water planning	22,672	22,672	21,153	1,519
Total conservation of natural resources	\$ 317,956	\$ 317,956	\$ 315,833	\$ 2,123
Economic development				
Community development	\$ 122,305	\$ 97,899	\$ 24,584	\$ 73,315
Airport	950,111	950,111	568,811	381,300
Other economic development	9,010	9,010	8,646	364
Total economic development	\$ 1,081,426	\$ 1,057,020	\$ 602,041	\$ 454,979
Total Expenditures	\$ 11,651,918	\$ 11,467,678	\$ 10,998,362	\$ 469,316
Excess of Revenues Over (Under) Expenditures	\$ (251,848)	\$ (364,608)	\$ 48,714	\$ 413,322
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (4,698)	\$ (4,698)
Proceeds from sale of capital assets	-	-	1,992	1,992
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (2,706)	\$ (2,706)
Net Change in Fund Balance	\$ (251,848)	\$ (364,608)	\$ 46,008	\$ 410,616
Fund Balance - January 1	4,946,799	4,946,799	4,946,799	-
Fund Balance - December 31	\$ 4,694,951	\$ 4,582,191	\$ 4,992,807	\$ 410,616

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,295,682	\$ 2,276,848	\$ 2,229,877	\$ (46,971)
Licenses and permits	1,500	1,500	7,730	6,230
Intergovernmental	10,680,194	9,076,289	10,322,088	1,245,799
Charges for services	202,000	210,000	324,049	114,049
Investment earnings	21,500	21,500	17,005	(4,495)
Miscellaneous	11,288	29,417	29,031	(386)
Total Revenues	\$ 13,212,164	\$ 11,615,554	\$ 12,929,780	\$ 1,314,226
Expenditures				
Current				
Transportation				
Administration	\$ 257,146	\$ 266,329	\$ 265,902	\$ 427
Maintenance	2,564,935	2,462,023	4,119,359	(1,657,336)
Construction	10,736,282	8,986,559	7,046,159	1,940,400
Equipment maintenance and shop	827,801	1,074,643	1,025,525	49,118
Total transportation	\$ 14,386,164	\$ 12,789,554	\$ 12,456,945	\$ 332,609
Intergovernmental				
Highway and streets	-	-	222,274	(222,274)
Total Expenditures	\$ 14,386,164	\$ 12,789,554	\$ 12,679,219	\$ 110,335
Excess of Revenues Over (Under) Expenditures	\$ (1,174,000)	\$ (1,174,000)	\$ 250,561	\$ 1,424,561
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	3,000	3,000	2,100	(900)
Net Change in Fund Balance	\$ (1,171,000)	\$ (1,171,000)	\$ 252,661	\$ 1,423,661
Fund Balance - January 1	7,282,073	7,282,073	7,282,073	-
Increase (decrease) in inventories	-	-	(110,345)	(110,345)
Fund Balance - December 31	\$ 6,111,073	\$ 6,111,073	\$ 7,424,389	\$ 1,313,316

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,173,888	\$ 1,173,888	\$ 1,144,137	\$ (29,751)
Intergovernmental	2,549,378	2,555,405	2,533,148	(22,257)
Charges for services	156,040	156,040	118,194	(37,846)
Investment earnings	8,500	8,500	9,813	1,313
Miscellaneous	328,200	328,200	414,163	85,963
Total Revenues	\$ 4,216,006	\$ 4,222,033	\$ 4,219,455	\$ (2,578)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,391,571	\$ 1,418,455	\$ 1,596,218	\$ (177,763)
Social services	2,824,435	2,803,578	2,791,740	11,838
Total Expenditures	\$ 4,216,006	\$ 4,222,033	\$ 4,387,958	\$ (165,925)
Net Change in Fund Balance	\$ -	\$ -	\$ (168,503)	\$ (168,503)
Fund Balance - January 1	1,459,644	1,459,644	1,459,644	-
Fund Balance - December 31	\$ 1,459,644	\$ 1,459,644	\$ 1,291,141	\$ (168,503)

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2013**

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

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2013**

1. Budgetary Information

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

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

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

2. Excess of Expenditures Over Budget

The Social Services Special Revenue Fund expenditures of \$4,387,958 exceeded the final budget of \$4,222,033 by \$165,925 due to not budgeting for the EDMS project.

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 4.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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**COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS
AND SCHEDULES**

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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.

The Capital Projects Fund is used to account for all financial resources committed for the construction of the Criminal Justice Center. This fund was closed in 2013.

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	<u>Debt Service Fund</u>
<u>Assets</u>	
Cash and pooled investments	\$ 851,193
Taxes receivable	
Prior	<u>21,297</u>
Total Assets	<u>\$ 872,490</u>
 <u>Deferred Inflows of Resources and Fund Balances</u>	
Deferred Inflows of Resources	
Unavailable revenue (Note 3.D.)	\$ 12,514
Fund Balances	
Restricted for	
Debt service	<u>859,976</u>
Total Deferred Inflows of Resources and Fund Balances	<u>\$ 872,490</u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds (Exhibit 5)</u>
Revenues			
Taxes	\$ 1,091,626	\$ -	\$ 1,091,626
Intergovernmental	36,408	-	36,408
Investment earnings	-	18	18
	<u> </u>	<u> </u>	<u> </u>
Total Revenues	<u>\$ 1,128,034</u>	<u>\$ 18</u>	<u>\$ 1,128,052</u>
Expenditures			
Debt service			
Principal	\$ 485,000	\$ -	\$ 485,000
Interest	593,200	-	593,200
Administrative - fiscal charges	7,424	-	7,424
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	<u>\$ 1,085,624</u>	<u>\$ -</u>	<u>\$ 1,085,624</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 42,410</u>	<u>\$ 18</u>	<u>\$ 42,428</u>
Other Financing Sources (Uses)			
Transfers in	-	4,698	4,698
	<u> </u>	<u> </u>	<u> </u>
Net Change in Fund Balance	<u>\$ 42,410</u>	<u>\$ 4,716</u>	<u>\$ 47,126</u>
Fund Balance - January 1	<u>817,566</u>	<u>(4,716)</u>	<u>812,850</u>
Fund Balance - December 31	<u><u>\$ 859,976</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 859,976</u></u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,099,499	\$ 1,099,499	\$ 1,091,626	\$ (7,873)
Intergovernmental	34,390	34,390	36,408	2,018
Total Revenues	\$ 1,133,889	\$ 1,133,889	\$ 1,128,034	\$ (5,855)
Expenditures				
Debt service				
Principal	\$ 514,500	\$ 514,500	\$ 485,000	\$ 29,500
Interest	619,389	619,389	593,200	26,189
Administrative (fiscal) charges	-	-	7,424	(7,424)
Total Expenditures	\$ 1,133,889	\$ 1,133,889	\$ 1,085,624	\$ 48,265
Net Change in Fund Balance	\$ -	\$ -	\$ 42,410	\$ 42,410
Fund Balance - January 1	817,566	817,566	817,566	-
Fund Balance - December 31	\$ 817,566	\$ 817,566	\$ 859,976	\$ 42,410

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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.

The Region 1 Fund accounts for the funds of Southeast Minnesota Region 1, a joint power board 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, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CROOKED CREEK WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 537	\$ 25,298	\$ 25,498	\$ 337
<u>Liabilities</u>				
Due to other governments	\$ 537	\$ 25,298	\$ 25,498	\$ 337
 <u>HEALTH</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 28,279	\$ 72,126	\$ 67,035	\$ 33,370
<u>Liabilities</u>				
Accounts payable	\$ 28,279	\$ 72,126	\$ 67,035	\$ 33,370
 <u>REVOLVING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 76,203	\$ 3,667,158	\$ 3,701,116	\$ 42,245
<u>Liabilities</u>				
Due to other governments	\$ 76,203	\$ 3,667,158	\$ 3,701,116	\$ 42,245

**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, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SOIL AND WATER CONSERVATION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 432,588	\$ 488,945	\$ 361,927	\$ 559,606
<u>Liabilities</u>				
Due to other governments	\$ 432,588	\$ 488,945	\$ 361,927	\$ 559,606
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 169,526	\$ 6,102,245	\$ 6,129,641	\$ 142,130
<u>Liabilities</u>				
Due to other governments	\$ 169,526	\$ 6,102,245	\$ 6,129,641	\$ 142,130
 <u>FAMILY COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 239,287	\$ 122,623	\$ 77,520	\$ 284,390
<u>Liabilities</u>				
Due to other governments	\$ 239,287	\$ 122,623	\$ 77,520	\$ 284,390

**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, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 108,171</u>	<u>\$ 26,110,084</u>	<u>\$ 26,090,043</u>	<u>\$ 128,212</u>
<u>Liabilities</u>				
Accounts payable	\$ 108,171	\$ 6,294,291	\$ 6,274,250	\$ 128,212
Due to other funds	-	11,661,980	11,661,980	-
Due to other governments	-	8,153,813	8,153,813	-
Total Liabilities	<u>\$ 108,171</u>	<u>\$ 26,110,084</u>	<u>\$ 26,090,043</u>	<u>\$ 128,212</u>
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 200,643</u>	<u>\$ 7,331,871</u>	<u>\$ 7,409,439</u>	<u>\$ 123,075</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 200,643</u>	<u>\$ 7,331,871</u>	<u>\$ 7,409,439</u>	<u>\$ 123,075</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, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>VICTIM SERVICES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 22,978	\$ -	\$ 5,356	\$ 17,622
<u>Liabilities</u>				
Due to other governments	\$ 22,978	\$ -	\$ 5,356	\$ 17,622
 <u>REGION 1</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,557	\$ 44,204	\$ 47,761	\$ -
<u>Liabilities</u>				
Accounts payable	\$ 3,557	\$ 44,204	\$ 47,761	\$ -
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,281,769	\$ 43,964,554	\$ 43,915,336	\$ 1,330,987
<u>Liabilities</u>				
Accounts payable	\$ 140,007	\$ 6,410,621	\$ 6,389,046	\$ 161,582
Due to other funds	-	11,661,980	11,661,980	-
Due to other governments	1,141,762	25,891,953	25,864,310	1,169,405
Total Liabilities	\$ 1,281,769	\$ 43,964,554	\$ 43,915,336	\$ 1,330,987

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, 2013**

Shared Revenue

State

Highway users tax	\$	6,238,751
PERA rate reimbursement		24,006
Disparity reduction aid		135,771
Police aid		88,671
County program aid		725,016
Market value credit		183,780
Enhanced 911		92,828
		<u>92,828</u>

Total shared revenue **\$ 7,488,823**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	328,766
		<u>328,766</u>

Payments

Local

Local contributions	\$	14,500
Payments in lieu of taxes		335,824
		<u>335,824</u>

Total Payments **\$ 350,324**

Grants

State

Minnesota Department/Board of		
Public Safety	\$	272,821
Health		88,999
Employment and Economic Development		319,845
Natural Resources		112,613
Historical Society		10,000
Human Services		988,241
Corrections		33,161
Transportation		1,418,025
Water and Soil Resources		98,471
Pollution Control Agency		55,950
Peace Officer Standards and Training Board		4,443
		<u>4,443</u>

Total state **\$ 3,402,569**

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**EXHIBIT D-1
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Grants (Continued)

Federal

Department of	
Agriculture	\$ 310,375
Transportation	1,598,612
Health and Human Services	1,179,699
Homeland Security	960,713
Environmental Protection Agency	14,144

Total federal **\$ 4,063,543**

Total state and federal grants **\$ 7,466,112**

Total Intergovernmental Revenue **\$ 15,634,025**

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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	\$ 106,239
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	122,816
Direct Emergency Watershed Protection Program	10.923	<u>97,571</u>
Total U.S. Department of Agriculture		<u>\$ 326,626</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Airport Improvement Program	20.106	\$ 455,054
Highway Planning and Construction	20.205	1,250,667
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	<u>9,828</u>
Total U.S. Department of Transportation		<u>\$ 1,715,549</u>
U.S. Environmental Protection Agency		
Passed Through Southeast Minnesota Water Resources Board Nonpoint Source Implementation Grants	66.460	<u>\$ 14,144</u>
U.S. Department of Education		
Passed Through Hiawatha Valley Education District Special Education - Grants for Infants and Families	84.181	<u>\$ 1,000</u>

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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	\$ 4,000
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	27,432
Immunization Cooperative Agreements	93.268	1,050
PPHF 2012 National Public Health Improvement Initiative	93.507	1,500
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$151,473)	93.558	33,236
Maternal and Child Health Services Block Grant to the States	93.994	23,700
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	4,176
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$151,473)	93.558	118,237
Child Support Enforcement	93.563	338,644
Refugee and Entrant Assistance - State-Administered Programs	93.566	256
Child Care and Development Block Grant	93.575	7,960
Stephanie Tubbs Jones Child Welfare Services Program	93.645	2,768
Foster Care - Title IV-E	93.658	110,550
Social Services Block Grant	93.667	98,308
Chafee Foster Care Independence Program	93.674	2,349
Children's Health Insurance Program	93.767	57
Medical Assistance Program	93.778	510,922
Total U.S. Department of Health and Human Services		\$ 1,285,145
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	1,396,739
Passed Through Southeastern Minnesota Region One Homeland Security and Emergency Management Board Homeland Security Grant Program	97.067	580
Total U.S. Department of Homeland Security		\$ 1,402,319
Total Federal Awards		\$ 4,744,783

**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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, 2013. 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)	\$ 4,063,543
Unavailable revenue in 2012, recognized as revenue in 2013	
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	(6,027)
Airport Improvement Program	(21,998)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	(271,281)
Child Care and Development Block Grant	(666)
Foster Care - Title IV-E	(7,517)
Medical Assistance Program	(26,158)
Grants received more than 60 days after year-end, unavailable revenue in 2013	
State Administrative Matching Grants for 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
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	712,887
Child Care and Development Block Grant	562
Foster Care - Title IV-E	9,413
Medical Assistance Program	76,493
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Expenditures per Schedule of Expenditures of Federal Awards (Exhibit D-2)	\$ 4,744,783
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5. Subrecipients

During 2013, the County did not pass any federal money to subrecipients.

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**HOUSTON COUNTY
CALEDONIA, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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? **No**

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? **No**

The major programs are:

Airport Improvement Program	CFDA #20.106
Highway Planning and Construction	CFDA #20.205
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA #97.036

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 2006-001

Audit Reclassifications

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis.

Condition: 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.

Context: The inability to detect significant misstatements in the financial statements increases the likelihood the financial statements would not be fairly presented.

Effect: Audit reclassifications were necessary to properly classify revenue of \$938,907 in the Social Services Special Revenue Fund trial balance. Audit reclassifications were also necessary to properly classify expenditures of \$411,116 in the Road and Bridge Special Revenue Fund trial balance.

Cause: The County indicated the Human Service Department utilizes a spreadsheet to convert general ledger cash transactions to the revenue classifications in the trial balance. There were several revenues misclassified on this spreadsheet. The County indicated negative expenditures in the Road and Bridge Special Revenue Fund trial balance were caused by entries in the general ledger which related to the prior year and were atypical.

Recommendation: We recommend County staff review internal control procedures over trial balance and financial statement preparation to ensure revenues and expenditures are properly classified in the County's financial statements.

Client's Response:

County staff will review internal control procedures and review input sources to ensure the proper classification of revenues and expenditures.

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 Sheriff's 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:

Policies, procedures, departmental narratives, and available staff will be reviewed to provide necessary internal controls.

Finding: 2012-002

Timeliness of Preparation of Financial Statements

Criteria: Management is responsible for preparing the County's financial statements in accordance with generally accepted accounting principles (GAAP) and U.S. Office of Management and Budget (OMB) Circular A-133. The financial statement preparation in accordance with GAAP and OMB Circular A-133 requires internal control over both: (1) recording, processing, and summarizing accounting data (that is, maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

Condition: 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.

Context: In order to meet the County's September 30 single audit deadline, financial statements need to be provided to the auditors in a timely fashion.

Effect: Additional audit hours resulted from delays in completing the County's financial statements within a reasonable amount of time. Also, errors were discovered which resulted in adjustments and reclassifications to the financial statements.

Cause: Tasks and information necessary for the County's financial statements were not completed in the time, form, and manner required due to staffing limitations and time constraints.

Recommendation: The County Board of Commissioners and management should take responsibility for the financial statements by reviewing internal controls currently in place over the preparation of the financial statements. Procedures should be implemented to ensure the necessary financial information is prepared in a manner which allows the auditors an adequate amount of time to complete the audit by the County's required deadline.

Client's Response:

County personnel will review trial balance and financial statement preparation procedures and will provide adequate preparation and review to ensure accurate financial reporting in a timely manner.

ITEMS ARISING THIS YEAR

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:

The Houston County IT Department will review procedures and implement changes as necessary.

Finding 2013-002

Segregation of Duties/Disbursements

Criteria: Controls in place over operations should be designed to provide reasonable assurance material errors will be prevented or detected in a timely basis. Warrant register reports should be reviewed to the original invoice to ensure payments are for approved County expenditures. These procedures should be performed by an employee independent of the vendor payment process in a timely basis.

Condition: 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.

Context: County procedures indicate vendor invoices are to be approved at the departmental level prior to payment. Approved vendor invoices are sent to the Finance Department to be paid. Personnel within the Finance Department enter the information from these invoices into the accounting system and issue checks to vendors.

Effect: The absence of internal control procedures increases the risk errors, or irregularities will not be detected in a timely manner.

Cause: The County indicated due to available resources, the County was not able to segregate duties.

Recommendation: We recommend an employee independent of the vendor payment process review the warrant register report to original invoices to ensure payments are for approved County expenditures. This review should be documented.

Client's Response:

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

PREVIOUSLY REPORTED ITEMS RESOLVED

Information Technology Security Function (2010-001)

Internal controls should be designed to provide for an adequate segregation of functions and responsibilities so no person has incompatible duties which would permit the perpetration and concealment of material errors or irregularities. The Finance Director was performing the information technology security function for the County.

Resolution

The Finance Director was removed from the information technology security function during 2013. This function was reassigned to the County Information Technology Director.

Segregation of Duties/Vendor Setup (2012-001)

Internal controls should be designed to provide for an adequate segregation of functions and responsibilities so no person has incompatible duties which would permit the perpetration and concealment of material errors or irregularities. Personnel processing disbursements were also adding and changing vendors. Procedures were in place to have personnel independent of the disbursement process reviewing a listing of new or changes to vendors quarterly. The reviews for 2012 were not completed until December 2012.

Resolution

The County Auditor reviewed a listing of new or changes to vendors quarterly in 2013.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

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. All County employees should be familiar with the plan.

Client's Response:

The Houston County IT Department will continue working on the Disaster Recovery Plan.



REBECCA OTTO
STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Houston County

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, 2013, 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 24, 2014.

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 2006-001, 2008-002, 2012-002, 2013-001, and 2013-002, that we consider to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for 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*. 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. We believe this recommendation to be of benefit to the County, and it is reported for that purpose.

Houston County's Response to Findings

Houston County's responses to the internal control 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 24, 2014

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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

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, 2013. 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 its major federal programs for the year ended December 31, 2013.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 24, 2014

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR