PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 30, 2017

In the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, and assuming compliance with certain requirements of the Internal Revenue Code of 1986, as amended, (the "Code"), and certain covenants, interest to be paid on the Bonds is excluded from gross income for federal income tax purposes and from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, and is not an item of tax preference for federal or Minnesota alternative minimum tax purposes. Such interest is included in taxable income for purposes of the Minnesota franchise tax on corporations and financial institutions and in adjusted current earnings of corporations for federal alternative minimum tax purposes. The Bonds will be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. See "TAX EXEMPTION" and "RELATED TAX CONSIDERATIONS".

New Issue | **Rating Application Made: S&P Global Ratings**

HOUSTON COUNTY, MINNESOTA

$9,975,000* GENERAL OBLIGATION REFUNDING BONDS, SERIES 2017A

PROPOSAL OPENING: December 11, 2017, 12:00 P.M. (Noon), C.T.
CONSIDERATION: December 12, 2017, 9:00 A.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The $9,975,000* General Obligation Refunding Bonds, Series 2017A (the "Bonds") are authorized pursuant to Minnesota Statutes, Chapters 475 and 641, and Section 475.67, by Houston County, Minnesota (the "County"), for the purpose of effecting an advance crossover refunding of certain outstanding general obligations of the County as more fully described herein. The Bonds will be general obligations of the County for which its full faith, credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota.

DATE OF BONDS: December 27, 2017

MATURITY: February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2021	$ 30,000	2025	$1,135,000	2029	$1,220,000
2022	270,000	2026	1,155,000	2030	1,255,000
2023	505,000	2027	1,180,000	2031	1,320,000
2024	705,000	2028	1,200,000		

MATURITY ADJUSTMENTS: * The County reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

TERM BONDS: See "Term Bond Option" herein.

INTEREST: August 1, 2018 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing February 1, 2028 and thereafter are subject to call for prior redemption on February 1, 2027 and any date thereafter, at a price of par plus accrued interest.

MINIMUM PROPOSAL: $9,875,250

GOOD FAITH DEPOSIT: A cashier's check in the amount of $199,500 may be submitted contemporaneously with the proposal or, alternatively, a good faith deposit shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation, Roseville, Minnesota

ESCROW AGENT: Zions Bank, a division of ZB, National Association, Chicago, Illinois

BOOK-ENTRY-ONLY: See "Book-Entry-Only System" herein (unless otherwise specified by the purchaser).

REPRESENTATIONS

No dealer, broker, salesperson or other person has been authorized by the County to give any information or to make any representation other than those contained in this Preliminary Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the County. ***This Preliminary Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.***

This Preliminary Official Statement is not to be construed as a contract with the Syndicate Manager or Syndicate Members. Statements contained herein which involve estimates or matters of opinion are intended solely as such and are not to be construed as representations of fact. Ehlers & Associates, Inc. prepared this Preliminary Official Statement and any addenda thereto relying on information of the County and other sources for which there is reasonable basis for believing the information is accurate and complete. Bond Counsel has not participated in the preparation of this Preliminary Official Statement and is not expressing any opinion as to the completeness or accuracy of the information contained therein. Compensation of Ehlers & Associates, Inc., payable entirely by the County, is contingent upon the sale of the issue.

COMPLIANCE WITH S.E.C. RULE 15c2-12

Certain municipal obligations (issued in an aggregate amount over $1,000,000) are subject to Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Rule").

Preliminary Official Statement: This Preliminary Official Statement was prepared for the County for dissemination to potential investors. Its primary purpose is to disclose information regarding the Bonds to prospective underwriters in the interest of receiving competitive proposals in accordance with the sale notice contained herein. Unless an addendum is posted prior to the sale, this Preliminary Official Statement shall be deemed nearly final for purposes of the Rule subject to completion, revision and amendment in a Final Official Statement as defined below.

Review Period: This Preliminary Official Statement has been distributed to prospective bidders for review. Comments or requests for the correction of omissions or inaccuracies must be submitted to Ehlers & Associates, Inc. at least two business days prior to the sale. Requests for additional information or corrections in the Preliminary Official Statement received on or before this date will not be considered a qualification of a proposal received from an underwriter. If there are any changes, corrections or additions to the Preliminary Official Statement, interested bidders will be informed by an addendum prior to the sale.

Final Official Statement: Copies of the Final Official Statement will be delivered to the underwriter (Syndicate Manager) within seven business days following the proposal acceptance.

Continuing Disclosure: Subject to certain exemptions, issues in an aggregate amount over $1,000,000 may be required to comply with provisions of the Rule which require that underwriters obtain from the issuers of municipal securities (or other obligated party) an agreement for the benefit of the owners of the securities to provide continuing disclosure with respect to those securities. This Preliminary Official Statement describes the conditions under which the Bonds are exempt or required to comply with the Rule.

CLOSING CERTIFICATES

Upon delivery of the Bonds, the underwriter (Syndicate Manager) will be furnished with the following items: (1) a certificate of the appropriate officials to the effect that at the time of the sale of the Bonds and all times subsequent thereto up to and including the time of the delivery of the Bonds, this Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (2) a receipt signed by the appropriate officer evidencing payment for the Bonds; (3) a certificate evidencing the due execution of the Bonds, including statements that (a) no litigation of any nature is pending, or to the knowledge of signers, threatened, restraining or enjoining the issuance and delivery of the Bonds, (b) neither the corporate existence or boundaries of the County nor the title of the signers to their respective offices is being contested, and (c) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded; and (4) a certificate setting forth facts and expectations of the County which indicates that the County does not expect to use the proceeds of the Bonds in a manner that would cause them to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or within the meaning of applicable Treasury Regulations.

TABLE OF CONTENTS

BOARD OF COMMISSIONERS

		Term Expires
Jack Miller	Chairperson	January 2021
Justin Zmyeski	Vice Chairperson	January 2019
Fred Arnold	County Commissioner	January 2021
Scott Connor	County Commissioner	January 2021
Teresa Walter	County Commissioner	January 2019

ADMINISTRATION

Char Meiners, County Auditor
Carol Lapham, Finance Director
Donna Trehus, County Treasurer
Samuel Jandt, County Attorney

PROFESSIONAL SERVICES

Dorsey & Whitney LLP, Bond Counsel and Disclosure Counsel, Minneapolis, Minnesota

Ehlers & Associates, Inc., Municipal Advisors, Roseville, Minnesota
(*Other offices located in Waukesha, Wisconsin, Chicago, Illinois and Denver, Colorado*)

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding Houston County, Minnesota (the "County") and the issuance of its $9,975,000* General Obligation Refunding Bonds, Series 2017A (the "Bonds") or the "Obligations". Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution awarding the sale of the Bonds (the "Award Resolution") to be adopted by the Board of Commissioners on December 12, 2017.

Inquiries may be directed to Ehlers & Associates, Inc. ("Ehlers" or the "Municipal Advisor"), Roseville, Minnesota, (651) 697-8500, the County's Municipal Advisor. A copy of this Preliminary Official Statement may be downloaded from Ehlers' web site at www.ehlers-inc.com by connecting to the Bond Sales link and following the directions at the top of the site.

THE BONDS

GENERAL

The Bonds will be issued in fully registered form as to both principal and interest in denominations of $5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of December 27, 2017. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing August 1, 2018, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2021 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

Unless otherwise specified by the purchaser, the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). (See "Book-Entry-Only System" herein.) As long as the Bonds are held under the book-entry system, beneficial ownership interests in the Bonds may be acquired in book-entry form only, and all payments of principal of, premium, if any, and interest on the Bonds shall be made through the facilities of DTC and its participants. If the book-entry system is terminated, principal of, premium, if any, and interest on the Bonds shall be payable as provided in the Award Resolution.

The City has selected Bond Trust Services Corporation, Roseville, Minnesota ("BTSC"), to act as paying agent (the "Paying Agent") and Zions Bank, a division of ZB, National Association, Chicago, Illinois, as escrow agent (the "Escrow Agent"). BTSC and Ehlers are affiliate companies. The City will pay the charges for Paying Agent and Escrow Agent services. The City reserves the right to remove the Paying Agent and/or Escrow Agent and to appoint a successor.

OPTIONAL REDEMPTION

At the option of the County, the Bonds maturing on or after February 1, 2028 shall be subject to optional redemption prior to maturity on February 1, 2027 and on any date thereafter, at a price of par plus accrued interest.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the County. If only part of the Bonds having a common maturity date are called for redemption, then the County or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

AUTHORITY; PURPOSE

The Bonds are authorized pursuant to Minnesota Statutes, Chapters 475 and 641, and Section 475.67, for the purpose of effecting an advance crossover refunding of the County’s $7,250,000 General Obligation Jail Bonds, Series 2009C (the “Series 2009C Bonds”) and the County's $5,220,000 General Obligation Jail Bonds, Series 2010B (the "Series 2010B Bonds") as follows:

Issue Being Refunded	**Date of Refunded Issue**	**Call Date**	**Call Price**	**Maturities Being Refunded**	**Interest Rates**	**Principal to be Refunded**	**CUSIP Base 442056**
Series 2009C Bonds	10/27/09	2/1/20	Par	2024 (partial)	3.25%	$200,000	AU1
				2025	3.50%	625,000	AV9
				2026	3.50%	655,000	AW7
				2027	3.75%	685,000	AX5
				2028	3.75%	720,000	AY3
				2029	4.00%	755,000	AZ0
				2030	4.00%	790,000	BA4
Total Series 2009C Bonds Being Refunded						$4,430,000	

The Bonds are being sold in advance of the call date of the Series 2009C Bonds and will be invested in accordance with the Internal Revenue Code of 1986, as amended (the “Code”). Acceptance of a proposal is dependent upon a satisfactory escrow account being established in an amount sufficient to (i) pay interest on the portion of the Bonds allocated to refunding the Series 2009C Bonds through February 1, 2020 and (ii) to pay the callable principal of the Series 2009C Bonds on the February 1, 2020 call date. The County will establish an escrow account funded with direct obligations of the U.S. Government. Actuarial services necessary to insure adequacy of the escrow account to provide timely payment of the Series 2009C Bonds to be refunded on the call date will be performed by a certified public accountant (the “Verification Agent”).

The County will continue to pay debt service on the Series 2009C Bonds until the call date. Interest on the Bonds due December 27, 2017 through February 1, 2020, will be paid from the escrow account established with proceeds of the Bonds.

Issue Being Refunded	Date of Refunded Issue	Call Date	Call Price	Maturities Being Refunded	Interest Rates	Principal to be Refunded	CUSIP Base 442056
Series 2010B Bonds	12/7/10	2/1/21	Par	2023 (term)	4.000%	$610,000	BN6
				2024	4.000%	435,000	BP1
				2025	4.000%	450,000	BQ9
				2026	4.000%	455,000	BR7
				2027	4.000%	470,000	BS5
				2028	4.000%	475,000	BT3
				2029	4.125%	485,000	BU0
				2030	4.250%	500,000	BV8
				2031	4.250%	1,340,000	BW6
Total Series 2010B Bonds Being Refunded						$5,220,000	

The Bonds are being sold in advance of the call date of the Series 2010B Bonds and will be invested in accordance with the Internal Revenue Code of 1986, as amended (the "Code"). Acceptance of a proposal is dependent upon a satisfactory escrow account being established in an amount sufficient to (i) pay interest on the portion of the Bonds allocated to refunding the Series 2010B Bonds through February 1, 2021 and (ii) to pay the callable principal of the Series 2010B Bonds on the February 1, 2021 call date. The County will establish an escrow account funded with direct obligations of the U.S. Government. Actuarial services necessary to insure adequacy of the escrow account to provide timely payment of the Series 2010B Bonds to be refunded on the call date will be performed by a certified public accountant (the "Verification Agent").

The County will continue to pay debt service on the Series 2010B Bonds until the call date. Interest on the Bonds due December 27, 2017 through February 1, 2021 will be paid from the escrow account established with proceeds of the Bonds.

ESTIMATED SOURCES AND USES

Sources			
	Par Amount of Bonds	$9,975,000	
	Total Sources		**$9,975,000**
Uses			
	Deposit to Crossover Escrow Fund	$9,785,456	
	Contingency	1,794	
	Estimated Discount	99,750	
	Finance Related Expenses	88,000	
	Total Uses		**$9,975,000**

SECURITY

The Bonds are general obligations of the County for which its full faith, credit and taxing powers are pledged without limit as to rate or amount. In accordance with Minnesota Statutes, the County will levy each year an amount not less than 105% of the debt service requirements on the Bonds. In the event funds on hand for payment of principal and interest are at any time insufficient, the County is required to levy an ad valorem tax upon all taxable properties within its boundaries without limit as to rate or amount to make up any deficiency.

RATING

General obligation debt of the County, with the exception of any outstanding credit enhanced issues, is currently rated "AA-" by S&P Global Ratings.

The County has requested a rating on this issue from S&P Global Ratings, and bidders will be notified as to the assigned rating prior to the sale. Such rating reflects only the views of such organization and explanations of the significance of such rating may be obtained from S&P Global Ratings. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Such rating is not to be construed as a recommendation of the rating agency to buy, sell or hold the Bonds, and the rating assigned by the rating agency should be evaluated independently. Except as may be required by the Disclosure Undertaking described under the heading "CONTINUING DISCLOSURE" neither the County nor the underwriter undertake responsibility to bring to the attention of the owner of the Bonds any proposed changes in or withdrawal of such rating or to oppose any such revision or withdrawal.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (hereinafter the "Rule"), the County shall covenant to take certain actions pursuant to a Resolution adopted by the Board of Commissioners by entering into a Continuing Disclosure Undertaking (the "Disclosure Undertaking") for the benefit of holders, including beneficial holders. The Disclosure Undertaking requires the County to provide electronically or in the manner otherwise prescribed certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule. The details and terms of the Disclosure Undertaking for this issue are set forth in Appendix D to be executed and delivered by the County at the time of delivery of the Bonds. Such Disclosure Undertaking will be in substantially the form attached hereto.

The County did not meet its disclosure obligation by not filing the following in the last five years as required by the Rule. Except to the extent that the following are deemed to be material, the County believes it has not failed to comply in all material respects with its prior undertakings under the Rule. The County has reviewed its continuing disclosure responsibilities to help ensure compliance in the future.

Disclosure Deficiency Description	Due Date/Date of Event	Date Filed
Standard and Poor's Global Ratings general obligation rating change notice was filed late.	March 6, 2014	July 16, 2014

A failure by the County to comply with any Disclosure Undertaking will not constitute an event of default on this issue or any issue outstanding. However, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

The County will file its continuing disclosure information using the Electronic Municipal Market Access ("EMMA") system or any system that may be prescribed in the future. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org. Ehlers is currently engaged as disclosure dissemination agent for the County.

LEGAL OPINION

An opinion in substantially the form attached hereto as Appendix B will be furnished by Dorsey & Whitney LLP, Minneapolis, Minnesota, bond counsel to the County.

TAX EXEMPTION AND RELATED TAX CONSIDERATIONS

The following discussion is not intended to be an exhaustive discussion of collateral tax consequences arising from ownership or disposition of the Bonds or receipt of interest on the Bonds. Prospective purchasers should consult their tax advisors with respect to collateral tax consequences, including, without limitation, the determination of gain or loss on the sale of a Bond, the calculation of alternative minimum tax liability, the inclusion of Social Security or other retirement payments in taxable income, the disallowance of deductions for certain expenses attributable to the Bonds, and applicable state and local tax rules in states other than Minnesota. The form of the approving opinion of Dorsey & Whitney LLP, Bond Counsel, is attached as Appendix B hereto.

Tax Exemption

It is the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, and on certifications to be furnished at closing, and assuming compliance by the County with certain covenants (the "Tax Covenants"), that interest to be paid on the Bonds is excluded from gross income for federal income tax purposes and from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes. Such interest is, however, included in taxable income for purposes of the Minnesota franchise tax on corporations and financial institutions.

Certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), however, impose continuing requirements that must be met after the issuance of the Bonds in order that interest on the Bonds be and remain excludable from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts. These requirements include, but are not limited to, provisions regarding the use of Bond proceeds and the facilities financed or refinanced with such proceeds; restrictions on the investment of Bond proceeds and other amounts; and provisions requiring that certain investment earnings be rebated periodically to the federal government. Noncompliance with such requirements of the Code may cause interest on the Bonds to be includable in federal gross income or in Minnesota taxable net income retroactively to their date of issue. Compliance with the Tax Covenants will satisfy the current requirements of the Code with respect to exclusion of interest on the Bonds from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts. No provision has been made for redemption of or for an increase in the interest rate on the Bonds in the event that interest on the same becomes includable in federal gross income or in Minnesota taxable net income.

Qualified Tax-Exempt Obligations

The County will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code relating to the ability of financial institutions to deduct from income for federal income tax purposes a portion of the interest expense that is allocable to carrying and acquiring tax-exempt obligations. Sections 265(a)(2) and 291 of the Code impose additional limitations on the deductibility of such interest expense.

Original Issue Discount

Certain maturities of the Bonds may be issued at a discount from the principal amount payable on such Bonds at maturity (collectively, the "Discount Bonds"). The difference between the price at which a substantial amount of the Discount Bonds of a given maturity is first sold to the public (the "Issue Price") and the principal amount payable at maturity constitutes "original issue discount" under the Code. The amount of original issue discount that accrues to a holder of a Discount Bond under section 1288 of the Code is excluded from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts to the same extent that stated interest on such Discount Bond would be so excluded. The amount of the original issue discount that accrues with respect to a Discount Bond under section 1288 is added to the owner's federal and Minnesota tax basis in determining gain or loss upon disposition of such Discount Bond (whether by sale, exchange, redemption or payment at maturity). Original issue discount is taxable under the Minnesota franchise tax on corporations and financial institutions.

Interest in the form of original issue discount accrues under section 1288 pursuant to a constant yield method that reflects semiannual compounding on dates that are determined by reference to the maturity date of the Discount Bond. The amount of original issue discount that accrues for any particular semiannual accrual period generally is equal to the excess of (1) the product of (a) one-half of the yield on such Bonds (adjusted as necessary for an initial short period) and (b) the adjusted issue price of such Bonds, over (2) the amount of stated interest actually payable. For purposes of the preceding sentence, the adjusted issue price is determined by adding to the Issue Price for such Bonds the original issue discount that is treated as having accrued during all prior semiannual accrual periods. If a Discount Bond is sold or otherwise disposed of between semiannual compounding dates, then the original issue discount that would have accrued for that semiannual accrual period for federal income tax purposes is allocated ratably to the days in such accrual period.

If a Discount Bond is purchased for a cost that exceeds the sum of the Issue Price plus accrued interest and accrued original issue discount, the amount of original issue discount that is deemed to accrue thereafter to the purchaser is reduced by an amount that reflects amortization of such excess over the remaining term of such Bond. If such excess is greater than the amount of remaining original issue discount, the basis reduction rules in the Code for amortizable Bond premium might result in taxable gain upon sale, redemption or maturity of the Bonds, even if the Bonds are sold, redeemed or retired for an amount equal to or less than their cost.

Except for the Minnesota rules described above, no opinion is expressed as to state and local income tax treatment of original issue discount. It is possible under certain state and local income tax laws that original issue discount on a Discount Bond may be taxable in the year of accrual, and may be deemed to accrue differently than under federal law.

Holders of Discount Bonds should consult their tax advisors with respect to the computation and accrual of original issue discount and with respect to the other federal, state and local tax consequences associated with the purchase, ownership, redemption, sale or other disposition of Discount Bonds.

Bond Premium

Certain maturities of the Bonds may be issued at a premium to the principal amount payable at maturity. Except in the case of dealers, which are subject to special rules, Bondholders who acquire Bonds at a premium, even Bonds that were not initially offered at a premium, must, from time to time, reduce their federal and Minnesota tax bases for the

Bonds for purposes of determining gain or loss on the sale or payment of such Bonds. Premium generally is amortized for federal and Minnesota income and franchise tax purposes on the basis of a Bondholder's constant yield to maturity or to certain call dates with semiannual compounding. Accordingly, Bondholders who acquire Bonds at a premium might recognize taxable gain upon sale of the Bonds, even if such Bonds are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal or Minnesota income tax purposes. Bondholders who acquire Bonds at a premium should consult their tax advisors concerning the calculation of Bond premium and the timing and rate of premium amortization, as well as the state and local tax consequences of owning and selling Bonds acquired at a premium.

Related Tax Considerations

Interest on the Bonds is not an item of tax preference for federal or Minnesota alternative minimum tax purposes, but is included in adjusted current earnings of corporations for purposes of the federal alternative minimum tax. Section 86 of the Code and corresponding provisions of Minnesota law require recipients of certain Social Security and railroad retirement benefits to take interest on the Bonds into account in determining the taxability of such benefits. Passive investment income, including interest on the Bonds, may be subject to taxation under section 1375 of the Code, and corresponding provisions of Minnesota law, for an S corporation that has accumulated earnings and profits at the close of the taxable year, if more than 25 percent of its gross receipts is passive investment income. Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, and Minnesota law similarly denies a deduction for such interest in the case of individuals, estates, and trusts. Indebtedness may be allocated to the Bonds for this purpose even though not directly traceable to the purchase of the Bonds. Federal and Minnesota laws also restrict the deductibility of other expenses allocable to the Bonds. [Because of the basis reduction rules in the Code for amortizable Bond premium, Bondholders who acquire Bonds at a premium might recognize taxable gain upon sale of the Bonds even if the Bonds are sold for an amount equal to or less than their original cost.] In the case of an insurance company subject to the tax imposed by section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under section 832(b)(5) of the Code must be reduced by an amount equal to 15 percent of the interest on the Bonds that is received or accrued during the taxable year. Interest on the Bonds may be included in the income of a foreign corporation for purposes of the branch profits tax imposed by section 884 of the Code, and is included in net investment income of foreign insurance companies under section 842(b) of the Code.

Proposed Changes in Federal and State Law

From time to time, there are Presidential proposals, proposals of various federal committees and legislative proposals in Congress and in the state that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. For example, in the recent past, legislation has been proposed that effectively would have imposed a partial tax on otherwise tax exempt interest for certain higher income taxpayers. In addition, regulatory and administrative actions may from time to time be announced that could adversely affect the market value, marketability or tax status of the Bonds.

No prediction is made concerning future events. The opinions expressed by Bond Counsel in connection with the issuance of the Bonds are based upon existing law only. Purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed legislation, regulatory action, or litigation.

THE FOREGOING IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF COLLATERAL TAX CONSEQUENCES ARISING FROM OWNERSHIP OR DISPOSITION OF THE BONDS OR RECEIPT OF INTEREST ON THE BONDS. PROSPECTIVE PURCHASERS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX CONSEQUENCES OF, OR TAX CONSIDERATIONS FOR, PURCHASING OR HOLDING THE BONDS.

MUNICIPAL ADVISOR

Ehlers has served as municipal advisor to the County in connection with the issuance of the Bonds. The Municipal Advisor cannot participate in the underwriting of the Bonds. The financial information included in this Preliminary Official Statement has been compiled by the Municipal Advisor. Such information does not purport to be a review, audit or certified forecast of future events and may not conform with accounting principles applicable to compilations of financial information. Ehlers is not a firm of certified public accountants. Ehlers is registered with the Securities and Exchange Commission and the MSRB as a Municipal Advisor.

MUNICIPAL ADVISOR AFFILIATED COMPANIES

Bond Trust Services Corporation ("BTSC") and Ehlers Investment Partners, LLC ("EIP") are affiliate companies of Ehlers. BTSC is chartered by the State of Minnesota and authorized in Minnesota, Wisconsin, and Illinois to transact the business of a limited purpose trust company. BTSC provides paying agent services to debt issuers. EIP is a Registered Investment Advisor with the Securities and Exchange Commission. EIP assists issuers with the investment of bond proceeds or investing other issuer funds. This includes escrow bidding agent services. Issuers, such as the County, have retained or may retain BTSC and/or EIP to provide these services. If hired, BTSC and/or EIP would be retained by the County under an agreement separate from Ehlers.

INDEPENDENT AUDITORS

The basic financial statements of the County for the fiscal year ended December 31, 2016, have been audited by the Office of the Minnesota State Auditor, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

RISK FACTORS

Following is a description of possible risks to holders of the Bonds without weighting as to probability. This description of risks is not intended to be all-inclusive, and there may be other risks not now perceived or listed here.

Taxes: The Bonds are general obligations of the County, the ultimate payment of which rests in the County's ability to levy and collect sufficient taxes to pay debt service. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the County in time to pay debt service when due.

State Actions: Many elements of local government finance, including the issuance of debt and the levy of property taxes, are controlled by state government. Future actions of the state may affect the overall financial condition of the County, the taxable value of property within the County, and the ability of the County to levy and collect property taxes.

Future Changes in Law: Various State and federal laws, regulations and constitutional provisions apply to the County and to the Bonds. The County can give no assurance that there will not be a change in or interpretation of any such applicable laws, regulations and provisions which would have a material effect on the County or the taxing authority of the County.

Ratings; Interest Rates: In the future, the County's credit rating may be reduced or withdrawn, or interest rates for this type of obligation may rise generally, either possibility resulting in a reduction in the value of the Bonds for resale prior to maturity.

Tax Exemption: If the federal government or the State of Minnesota taxes all or a portion of the interest on municipal obligations, directly or indirectly, or if there is a change in federal or state tax policy, the value of the Bonds may fall for purposes of resale. Noncompliance following the issuance of the Bonds with certain requirements of the Code and covenants of the bond resolution may result in the inclusion of interest on the Bonds in gross income of the recipient for United States income tax purposes or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to United States or State of Minnesota income taxation, retroactive to the date of issuance.

Continuing Disclosure: A failure by the County to comply with the Disclosure Undertaking for continuing disclosure (see "CONTINUING DISCLOSURE") will not constitute an event of default on the Bonds. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer, or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

State Economy; State Aids: State of Minnesota cash flow problems could affect local governments and possibly increase property taxes.

Book-Entry-Only System: The timely credit of payments for principal and interest on the Bonds to the accounts of the Beneficial Owners of the Bonds may be delayed due to the customary practices, standing instructions or for other unknown reasons by DTC participants or indirect participants. Since the notice of redemption or other notices to holders of these obligations will be delivered by the County to DTC only, there may be a delay or failure by DTC, DTC participants or indirect participants to notify the Beneficial Owners of the Bonds.

Economy: A combination of economic, climatic, political or civil disruptions or terrorist actions outside of the control of the County, including loss of major taxpayers or major employers, could affect the local economy and result in reduced tax collections and/or increased demands upon local government. Real or perceived threats to the financial stability of the County may have an adverse effect on the value of the Bonds in the secondary market.

Secondary Market for the Bonds: No assurance can be given that a secondary market will develop for the purchase and sale of the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. The underwriters are not obligated to engage in secondary market trading or to repurchase any of the Bonds at the request of the owners thereof. Prices of the Bonds as traded in the secondary market are subject to adjustment upward and downward in response to changes in the credit markets and other prevailing circumstances. No guarantee exists as to the future market value of the Bonds. Such market value could be substantially different from the original purchase price.

Bankruptcy: The rights and remedies of the holders may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws, or equitable principles that may affect the enforcement of creditors' rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against local governments. The opinion of Bond Counsel to be delivered with respect to the Bonds will be similarly qualified.

VALUATIONS

OVERVIEW

All non-exempt property is subject to taxation by local taxing districts. Exempt real property includes Indian lands, public property, and educational, religious and charitable institutions. Most personal property is exempt from taxation (except investor-owned utility mains, generating plants, etc.).

The valuation of property in Minnesota consists of three elements. (1) The estimated market value is set by city or county assessors. Not less than 20% of all real properties are to be appraised by local assessors each year. (2) The taxable market value is the estimated market value adjusted by all legislative exclusions. (3) The tax capacity (taxable) value of property is determined by class rates set by the State Legislature. The tax capacity rate varies according to the classification of the property. Tax capacity represents a percent of taxable market value.

The property tax rate for a local taxing jurisdiction is determined by dividing the total tax capacity or market value of property within the jurisdiction into the dollars to be raised from the levy. State law determines whether a levy is spread on tax capacity or market value. Major classifications and the percentages by which tax capacity is determined are:

Type of Property	2014/15	2015/16	2016/17
Residential homestead[1]	First $500,000 - 1.00% Over $500,000 - 1.25%	First $500,000 - 1.00% Over $500,000 - 1.25%	First $500,000 - 1.00% Over $500,000 - 1.25%
Agricultural homestead[1]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $1,900,000 - 0.50% [2] Over $1,900,000 - 1.00% [2]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $2,140,000 - 0.50% [2] Over $2,140,000 - 1.00% [2]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $2,050,000 - 0.50% [2] Over $2,050,000 - 1.00% [2]
Agricultural non-homestead	Land - 1.00% [2]	Land - 1.00% [2]	Land - 1.00% [2]
Seasonal recreational residential	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]
Residential non-homestead:	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental: First $100,000 - .75% Over $100,000 - .25%	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental: First $106,000 - .75% Over $106,000 - .25%	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental: First $115,000 - .75% Over $115,000 - .25%
Industrial/Commercial/Utility[5]	First $150,000 - 1.50% Over $150,000 - 2.00%	First $150,000 - 1.50% Over $150,000 - 2.00%	First $150,000 - 1.50% Over $150,000 - 2.00%

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1 A residential property qualifies as "homestead" if it is occupied by the owner or a relative of the owner on the assessment date.

2 Applies to land and buildings. Exempt from referendum market value tax.

3 Exempt from referendum market value tax.

4 Cities of 5,000 population or less and located entirely outside the seven-county metropolitan area and the adjacent nine-county area and whose boundaries are 15 miles or more from the boundaries of a Minnesota city with a population of over 5,000.

5 The estimated market value of utility property is determined by the Minnesota Department of Revenue.

CURRENT PROPERTY VALUATIONS

2016/17 Economic Market Value $2,442,128,622[1]

	2016/17 Assessor's Estimated Market Value	2016/17 Net Tax Capacity
Real Estate	$2,350,545,900	$17,335,618
Personal Property	21,021,100	401,792
Total Valuation	$2,371,567,000	$17,737,410
Less: Captured Tax Increment Tax Capacity[2]		(108,325)
Taxable Net Tax Capacity		$17,629,085

[1] According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for Houston County is about 97.10% of the actual selling prices of property most recently sold in the County. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in an Economic Market Value ("EMV") for the County of $2,442,128,622.

[2] The captured tax increment value shown above represents the captured net tax capacity of tax increment financing districts located in Houston County.

2016/17 NET TAX CAPACITY BY CLASSIFICATION

	2016/17 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	$ 7,128,897	40.19%
Agricultural	7,178,665	40.47%
Commercial/industrial	1,456,618	8.21%
Public utility	47,345	0.27%
Railroad operating property	103,303	0.58%
Non-homestead residential	1,162,957	6.56%
Commercial & residential seasonal/rec.	257,833	1.45%
Personal property	401,792	2.27%
Total	$17,737,410	100.00%

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity[1]	Taxable Net Tax Capacity[2]	Percent +/- in Estimated Market Value
2012/13	$2,087,199,800	$1,806,093,600	$15,955,487	$15,846,224	+ 2.34%
2013/14	2,224,522,100	1,966,436,200	17,015,087	16,902,388	+ 6.58%
2014/15	2,399,385,000	2,104,198,700	17,851,066	17,731,429	+ 7.86%
2015/16	2,369,336,700	2,076,792,400	17,622,891	17,502,476	- 1.25%
2016/17	2,371,567,000	2,071,981,200	17,737,410	17,629,085	+ 0.09%

[1] Net Tax Capacity includes tax increment values.

[2] Taxable Net Tax Capacity does not include tax increment values.

LARGER TAXPAYERS[1]

Taxpayer	Type of Property	2016/17 Net Tax Capacity	Percent of County's Total Net Tax Capacity
Minnesota Energy Resources Corporation	Utility	$170,996	0.96%
Northern Natural Gas Company	Utility	128,928	0.73%
Xcel Energy	Utility	64,525	0.36%
Great River Investment, LLC	Residential	63,988	0.36%
Dakota, Minnesota & Eastern RR	Residential	60,525	0.34%
SNO-PAC Foods	Commercial	51,692	0.29%
WB Properties, LLP	Commercial	48,405	0.27%
Tri-County Electric Co-Op	Utility	44,950	0.25%
425 Badger Street, LLC	Commercial	42,729	0.24%
ACE Telephone Association	Commercial	40,307	0.23%
Total		$717,045	4.04%

County's Total 2016/17 Net Tax Capacity $17,737,410

Source: Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Larger Taxpayers have been furnished by Houston County.

1 In 2017, the estimated median commercial and industrial sales ratio used to equalize utility values in Houston County dropped below 90% to 89.94%, thereby resulting in lower valuations for this classification of property. Depreciation may also have affected the decrease in valuations.

DEBT

DIRECT DEBT[1]

General Obligation Debt (see schedules following)

Total g.o. debt being paid from taxes (includes the Bonds)*	$15,090,000

*Preliminary, subject to change.

1 Outstanding debt is as of the dated date of the Bonds.

HOUSTON COUNTY, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Taxes
(As of 12/27/17)

	CIP Series 2009B		Jail Series 2009C		CIP Series 2010A		Jail Series 2010B		Refunding 1) Series 2017A							
Dated	10/27/09		10/27/09		12/07/10		12/07/10		12/27/17							
Amount	$2,865,000		$7,250,000		$2,695,000		$5,220,000		$9,975,000*							
Maturity	2/01		2/01		2/01		2/01		2/01							
Fiscal Year Ending	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Estimated Interest**	**Total Principal**	**Total Interest**	**Total P & I**	**Principal Outstanding**	**% Paid**	**Fiscal Year Ending**
2018	465,000	13,963	0	255,513	315,000	44,944	0	214,006	0	0	780,000	528,425	1,308,425	14,310,000	5.17%	**2018**
2019	215,000	3,494	265,000	251,538	325,000	36,373	0	214,006	0	235,831	805,000	741,241	1,546,241	13,505,000	10.50%	**2019**
2020			505,000	239,988	325,000	26,623	0	214,006	0	215,480	830,000	696,096	1,526,096	12,675,000	16.00%	**2020**
2021			525,000	223,881	420,000	14,760	0	107,003	30,000	215,480	975,000	561,124	1,536,124	11,700,000	22.47%	**2021**
2022			550,000	206,413	230,000	3,968			270,000	215,105	1,050,000	425,485	1,475,485	10,650,000	29.42%	**2022**
2023			575,000	188,131					505,000	211,325	1,080,000	399,456	1,479,456	9,570,000	36.58%	**2023**
2024			400,000	89,394					705,000	203,498	1,105,000	292,891	1,397,891	8,465,000	43.90%	**2024**
2025									1,135,000	191,513	1,135,000	191,513	1,326,513	7,330,000	51.42%	**2025**
2026									1,155,000	170,515	1,155,000	170,515	1,325,515	6,175,000	59.08%	**2026**
2027									1,180,000	147,415	1,180,000	147,415	1,327,415	4,995,000	66.90%	**2027**
2028									1,200,000	122,635	1,200,000	122,635	1,322,635	3,795,000	74.85%	**2028**
2029									1,220,000	95,635	1,220,000	95,635	1,315,635	2,575,000	82.94%	**2029**
2030									1,255,000	66,355	1,255,000	66,355	1,321,355	1,320,000	91.25%	**2030**
2031									1,320,000	34,980	1,320,000	34,980	1,354,980	0	100.00%	**2031**
	680,000	17,456	2,820,000	1,454,856	1,615,000	126,666	0	749,022	9,975,000	2,125,766	15,090,000	4,473,767	19,563,767			

*Preliminary,subject to change.

1) This issue is refunding a portion of the 2024 maturity and all of the 2025 through 2030 maturities of the County's $7,250,000 General Obligation Jail Bonds, Series 2009C, dated October 27, 2009. This issue is also refunding the 2022 through 2031 maturities of the County's $5,220,000 General Obligation Jail Bonds, Series 2010B, dated December 7, 2010. The County is responsible for paying the debt service on the refunded maturities through February 1, 2020 (the "Series 2009C Call Date") and through February 1, 2021 (the "Sereis 2010C Call Date"). The escrow account is responsible for the payment of debt service on the refunding bonds through their respecitve Call Date; thereafter, the County will be responsible for the payment of debt service. The refunded maturities have not been included in the calculation of debt ratios.

DEBT LIMIT

The statutory limit on debt of Minnesota municipalities other than school districts or cities of the first class (Minnesota Statutes, Section 475.53, subd. 1) is 3% of the Assessor's Estimated Market Value of all taxable property within its boundaries. "Net debt" (Minnesota Statutes, Section 475.51, subd. 4) is the amount remaining after deducting from gross debt: (1) obligations payable wholly or partly from special assessments levied against benefitted property; (2) warrants or orders having no definite or fixed maturity; (3) obligations issued to finance any public revenue producing convenience; (4) obligations issued to create or maintain a permanent improvement revolving fund; (5) funds held as sinking funds for payment of principal and interest on debt other than those deductible under 1-4 above; (6) other obligations which are not to be included in computing the net debt of a municipality under the provisions of the law authorizing their issuance.

2016/17 Assessor's Estimated Market Value	$2,371,567,000
Multiply by 3%	0.03
Statutory Debt Limit	$ 71,147,010
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Bonds of this offering)*	(15,090,000)
Unused Debt Limit*	$ 56,057,010

*Preliminary, subject to change.

UNDERLYING DEBT[1]

Taxing District	2016/17 Taxable Net Tax Capacity	% In County	Total G.O. Debt[2]	County's Proportionate Share
City of Brownsville	$ 338,835	100.0000%	$ 148,076	$ 148,076
City of Caledonia	1,490,700	100.0000%	1,610,183	1,610,183
City of Hokah	232,501	100.0000%	914,000	914,000
City of Houston	409,526	100.0000%	1,164,205	1,164,205
City of La Crescent	3,951,385	97.8828%	5,392,000	5,277,841
City of Spring Grove	525,311	100.0000%	1,895,000	1,895,000
I.S.D. No. 238 (Mabel-Canton)	3,715,551	3.3970%	503,000	17,087
I.S.D. No. 239 (Rushford-Peterson)	5,502,519	8.9327%	33,350,000 [3]	2,979,055
I.S.D. No. 294 (Houston)	3,206,670	86.1138%	5,205,000 [3]	4,482,223
I.S.D. No. 297 (Spring Grove)	2,406,795	100.0000%	1,000,000 [3]	1,000,000
I.S.D. No. 299 (Caledonia)	5,716,533	100.0000%	13,450,000 [3]	13,450,000
I.S.D. No. 300 (La Crescent-Hokah)	7,203,032	85.0563%	2,645,000 [3]	2,249,739
County's Share of Total Underlying Debt				$35,187,409

[1] Underlying debt is as of the dated date of the Bonds. Only those taxing jurisdictions with general obligation debt outstanding are included in this section. Does ***not*** include non-general obligation debt, self-supporting general obligation revenue debt, short-term general obligation debt, or general obligation tax/aid anticipation certificates of indebtedness.

[2] Outstanding debt is based on information in official statements obtained on EMMA and the Municipal Advisor's records.

[3] Based upon the long term facilities maintenance revenue formula and current statistics, the District anticipates a portion of this debt will be paid by the State of Minnesota.

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value ($2,442,128,622)	Debt/ Current Population Estimate (18,812)
Direct G.O. Debt Being Paid From:			
Taxes*	$ 15,090,000		
Tax Supported General Obligation Debt*	$ 15,090,000	0.62%	$802.15
County's Share of Total Underlying Debt	$ 35,187,409	1.44%	$1,870.48
Total*	$ 50,277,409	2.06%	$2,672.62

*Preliminary, subject to change.

DEBT PAYMENT HISTORY

The County has no record of default in the payment of principal and interest on its debt.

FUTURE FINANCING

The County has no current plans for additional financing in the next 12 months.

TAX RATES, LEVIES AND COLLECTIONS

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy[1]	Total Collected Following Year	Collected to Date[2]	% Collected
2012/13	$10,152,974	$10,009,020	$10,152,416	99.99%
2013/14	10,537,185	10,393,427	10,529,628	99.93%
2014/15	10,888,700	10,733,927	10,868,643	99.82%
2015/16	11,234,218	11,122,312	11,191,892	99.62%
2016/17	11,590,180	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.[3] Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

1 This reflects the Final Levy Certification of the County after all adjustments have been made.

2 Collections are through June 6, 2017.

3 Second half tax payments on agricultural property are due on November 15th of each year.

TAX CAPACITY RATES[1]

	2012/13	2013/14	2014/15	2015/16	2016/17
Houston County	64.958%	63.864%	63.243%	64.978%	66.411%
City of Brownsville	36.404%	37.724%	38.156%	37.661%	35.749%
City of Caledonia	50.043%	52.911%	53.403%	56.418%	52.982%
City of Eitzen	90.697%	91.391%	95.237%	95.255%	94.980%
City of Hokah	125.594%	125.361%	125.082%	123.488%	127.132%
City of Houston	113.011%	114.900%	124.147%	114.963%	110.899%
City of Spring Grove	103.651%	112.166%	119.645%	112.333%	116.121%
City of La Crescent	61.523%	61.182%	63.235%	64.893%	64.309%
I.S.D. No. 238 (Mabel-Canton)	17.054%	14.455%	14.241%	16.012%	3.233%
I.S.D. No. 239 (Rushford- Peterson)	7.278%	6.305%	29.822%	28.103%	27.694%
I.S.D. No. 294 (Houston)	12.129%	8.132%	11.620%	10.589%	7.582%
I.S.D. No. 297 (Spring Grove)	7.860%	6.426%	7.343%	7.739%	7.405%
I.S.D. No. 299 (Caledonia)	36.201%	34.529%	34.564%	37.132%	35.352%
I.S.D. No. 300 (La-Crescent-Hokah)	21.447%	21.104%	20.248%	21.717%	20.185%
Town of Black Hammer[2]	22.536%	19.831%	17.549%	17.843%	18.150%
Referendum Market Value Rates:					
I.S.D. No. 238 (Mabel-Canton)	0.3393%	0.3307%	0.2757%	0.2837%	0.4012%
I.S.D. No. 239 (Rushford- Peterson)	0.2715%	0.2517%	0.2179%	0.2011%	0.2306%
I.S.D. No. 294 (Houston)	0.4327%	0.4988%	0.4793%	0.4691%	0.5101%
I.S.D. No. 297 (Spring Grove)	0.4180%	0.3973%	0.3948%	0.3871%	0.4159%
I.S.D. No. 299 (Caledonia)	0.1730%	0.1499%	0.1533%	0.1506%	0.1558%
I.S.D. No. 300 (La-Crescent-Hokah)	0.1570%	0.1266%	0.1544%	0.1523%	0.1484%

Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Houston County.

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1 After reduction for state aids. Does not include the statewide general property tax against commercial/industrial, non-homestead resorts and seasonal recreational residential property.

2 Representative town rate.

LEVY LIMITS

The State Legislature has periodically imposed limitations on the ability of municipalities to levy property taxes. For taxes levied in 2013, payable in 2014, only, the Legislature imposed a one year levy limit on all counties with a population greater than 5,000, and all cities with a population greater than 2,500. While these limitations have expired, the potential exists for future legislation to limit the ability of local governments to levy property taxes. All previous limitations have not limited the ability to levy for the payment of debt service on bonded indebtedness. For more detailed information about Minnesota levy limits, contact the Minnesota Department of Revenue or Ehlers & Associates.

THE ISSUER

COUNTY GOVERNMENT

Houston County was organized as a municipality in 1854, and is governed by an elected five-member Board of County Commissioners, and decisions are made by a majority vote of a quorum. The County Finance Director is appointed by the Board, and the County Auditor and Treasurer are elected.

EMPLOYEES; PENSIONS; UNIONS

The County has 131 full-time, 17 part-time, and 44 seasonal employees. All full-time and certain part-time employees of the County are covered by defined benefit pension plans administered by the Public Employee Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing multiple-employer retirement plans. PERA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security. See the Notes to Financial Statements in Appendix A for a detailed description of the Plans.

Recognized and Certified Bargaining Units

Bargaining Unit	Expiration Date of Current Contract
AFSCME Local Union #2166	December 31, 2017
Local No. 49 AFL-CIO	December 31, 2017
LELS Local #237	December 31, 2017
LELS Local #60	December 31, 2017
MAPE	December 31, 2017

POST EMPLOYMENT BENEFITS

The County has obligations for some post-employment benefits (some mandated by State Statute and others that cover a portion of the cost of health insurance during retirement) for the majority of its employees. Accounting for these obligations is dictated by Governmental Accounting Standards Board Statement No. 45 (GASB 45). The County has completed an actuarial study of its obligations. The study shows an actuarial accrued liability of $591,403 with a discount rate of 4.5% as of January 1, 2014. The County is currently funding these obligations on a pay-as-you-go basis.

FUNDS ON HAND (as of October 31, 2017)

Fund	Total Cash and Investments
General Revenue	$ 3,497,983
Road & Bridge	9,540,067
Human Services	1,318,209
Debt Service	716,696
Revolving	56,408
Health	17,754
Taxes & Penalties	6,816,394
Townships & Cities	4,754
Soil & Water Conservation District	778,433
Family Services Collaborative	124,495
CHS Fiscal-Fillmore County	753
Total Funds on Hand	$22,871,946

LITIGATION

There is no litigation threatened or pending questioning the organization or boundaries of the County or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver the Bonds or otherwise questioning the validity of the Bonds.

MUNICIPAL BANKRUPTCY

Municipalities are prohibited from filing for bankruptcy under Chapter 11 (reorganization) or Chapter 7 (liquidation) of the U.S. Bankruptcy Code (11 U.S.C. §§ 101-1532) (the "Bankruptcy Code"). Instead, the Bankruptcy Code permits municipalities to file a petition under Chapter 9 of the Bankruptcy Code, but only if certain requirements are met. These requirements include that the municipality must be "specifically authorized" under State law to file for relief under Chapter 9. For these purposes, "State law" may include, without limitation, statutes of general applicability enacted by the State legislature, special legislation applicable to a particular municipality, and/or executive orders issued by an appropriate officer of the State's executive branch.

As of the date hereof, Minnesota Statutes, 471.831, authorizes municipalities to file for bankruptcy relief under Chapter 9 of the Bankruptcy Code. A municipality is defined in United States Code, title 11, section 101, as amended through December 31, 1996, but limited to a county, statutory or home rule charter city, or town; or a housing and redevelopment authority, economic development authority, or rural development financing authority established under Chapter 469, a home rule charter or special law.

SUMMARY GENERAL FUND INFORMATION

Following are summaries of the revenues and expenditures and fund balances for the County's General Fund. These summaries are not purported to be the complete audited financial statements of the County, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the County. Copies of the complete statements are available upon request. Appendix A includes the County's 2016 audited financial statements.

COMBINED STATEMENT	FISCAL YEAR ENDING DECEMBER 31				
	2013 Audited	**2014 Audited**	**2015 Audited**	**2016 Audited**	**2017 Adopted Budget**[1]
Revenues					
Property taxes	$ 5,807,569	$ 6,131,972	$ 6,439,840	$ 6,819,164	$ 7,106,317
Intergovernmental	2,742,381	2,381,643	2,780,865	2,985,544	2,466,628
Fees, licenses and permits	78,120	67,480	82,411	96,225	64,780
Fines and forfeitures	23,675	27,952	12,674	10,541	8,000
Charges for services	2,013,861	1,933,625	1,851,449	1,887,561	2,061,360
Investment earnings	29,461	198,523	179,867	213,139	142,900
Gifts and contributions	3,750	4,500	5,000	5,100	3,000
Other miscellaneous revenues	348,259	1,036,466	269,372	252,588	414,194
Total Revenues	$ 11,047,076	$ 11,782,161	$ 11,621,478	$ 12,269,862	$ 12,267,179
Expenditures					
Current:					
General government	$ 3,908,928	$ 4,034,746	$ 4,121,942	$ 4,372,197	$ 4,589,294
Public safety	3,357,753	3,535,994	3,567,205	4,089,525	4,142,128
Health and welfare	1,692,321	1,615,049	1,711,003	1,648,818	1,632,248
Sanitation	813,830	859,154	841,308	939,729	1,027,652
Conservation of natural resources	315,833	330,436	347,691	332,956	345,038
Economic development	602,041	341,349	350,989	340,925	163,445
Culture and recreation	307,656	389,897	405,238	638,011	508,453
Total Expenditures	$ 10,998,362	$ 11,106,625	$ 11,345,376	$ 12,362,161	$ 12,408,258
Excess of revenues over (under) expenditures	$ 48,714	$ 675,536	$ 276,102	$ (92,299)	$ (141,079)
Other Financing Sources (Uses)					
Operating transfers in	$ 0	$ 0	$ 0	$ 0	
Proceeds from the sale of capital assets	1,992	36,487	674	115,200	
Operating transfers out	(4,698)	0	0	0	
Total Other Financing Sources (Uses)	$ (2,706)	$ 36,487	$ 674	$ 115,200	
Net Changes in Fund Balances	$ 46,008	$ 712,023	$ 276,776	$ 22,901	
General Fund Balance January 1	4,946,799	4,992,807	5,704,830	5,981,606	
Prior Period Adjustment	0	0	0	0	
Residual Equity Transfer in (out)	0	0	0	0	
General Fund Balance December 31	$ 4,992,807	$ 5,704,830	$ 5,981,606	$ 6,004,507	
DETAILS OF DECEMBER 31 FUND BALANCE					
Nonspendable	$ 292,001	$ 217,893	$ 197,526	$ 375,505	
Restricted	586,212	660,243	688,618	740,101	
Committed	0	0	0	20,744	
Unassigned	4,114,594	4,826,694	5,095,462	4,868,157	
Total	$ 4,992,807	$ 5,704,830	$ 5,981,606	$ 6,004,507	

[1] The 2017 budget was adopted on December 27, 2016.

GENERAL INFORMATION

LOCATION

Houston County, with a 2010 U.S. Census population of 19,027 and a current population estimate of 18,812, and comprising an area of 558 square miles acres, is located approximately 160 miles southeast of the Minneapolis-St. Paul metropolitan area. The City of Caledonia is the county seat of Houston County.

LARGER EMPLOYERS[1]

Larger employers in the Houston County include the following:

Firm	Type of Business/Product	Estimated No. of Employees
ABLE, Inc.	Support services for people with mental & physical disabilities	239
I.S.D. No. 294 (Houston)	Elementary and secondary education	218
I.S.D. No. 300 (La Crescent-Hokah)	Elementary and secondary education	214
Houston County	County government and services	192
City of La Crescent	Municipal government and services	160
I.S.D. No. 299 (Caledonia)	Elementary and secondary education	140
Truss Specialist Inc	Truss manufacturers	124
Caledonia Haulers	Trucking company	110
Ready Bus Line Co	Bus and charter rentals	100
Miken Sports	Sports gear	100
Ace Telephone Assoc	Internet services	100

Source: *ReferenceUSA, written and telephone survey (November 2017), and the Minnesota Department of Employment and Economic Development.*

1 This does not purport to be a comprehensive list and is based on available data obtained through a survey of individual employers, as well as the sources identified above. Some employers do not respond to inquiries for employment data.

U.S. CENSUS DATA

Population Trend: Houston County

2000 U.S. Census population	19,718
2010 U.S. Census population	19,027
2015 State Demographer's Estimate	18,812
Percent of Change 2000 - 2010	-3.50%

Income and Age Statistics

	Houston County	State of Minnesota	United States
2015 per capita income	$27,626	$32,157	$28,930
2015 median household income	$53,809	$61,492	$53,889
2015 median family income	$64,754	$77,055	$66,011
2015 median gross rent	$634	$848	$928
2015 median value owner occupied units	$159,000	$186,200	$178,600
2015 median age	45.0 yrs.	37.7 yrs.	37.6 yrs.

	State of Minnesota	United States
County % of 2015 per capita income	85.91%	95.49%
County % of 2015 median family income	84.04%	98.10%

Housing Statistics

	Houston County		
	2000	2015	Percent of Change
All Housing Units	8,168	8,625	5.60%

Source: *2000 and 2010 Census of Population and Housing, and 2015 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (www.factfinder2.census.gov).*

EMPLOYMENT/UNEMPLOYMENT DATA

	Average Employment	Average Unemployment	
Year	Houston County	Houston County	State of Minnesota
2013	9,942	5.0%	4.9%
2014	9,858	4.4%	4.2%
2015	10,006	3.8%	3.7%
2016	10,063	4.0%	3.8%
2017, October	10,482	2.0%	2.4%

Source: *Minnesota Department of Employment and Economic Development.*

APPENDIX A

FINANCIAL STATEMENTS

Potential purchasers should read the included financial statements in their entirety for more complete information concerning the County's financial position. Such financial statements have been audited by the Auditor, to the extent and for the periods indicated thereon. The County has not requested the Auditor to perform any additional examination, assessments or evaluation with respect to such financial statements since the date thereof, nor has the County requested that the Auditor consent to the use of such financial statements in this Official Statement. Although the inclusion of the financial statements in this Official Statement is not intended to demonstrate the fiscal condition of the County since the date of the financial statements, in connection with the issuance of the Bonds, the County represents that there have been no material adverse change in the financial position or results of operations of the County, nor has the County incurred any material liabilities, which would make such financial statements misleading.

Copies of the complete audited financial statements for the past three years and the current budget are available upon request from Ehlers.

STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

HOUSTON COUNTY
CALEDONIA, MINNESOTA

YEAR ENDED DECEMBER 31, 2016

REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Houston County
Caledonia, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houston County, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Houston County as of December 31, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Houston County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2017, on our consideration of Houston County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Houston County's internal control over financial reporting and compliance.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 18, 2017

HOUSTON COUNTY
CALEDONIA, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(Unaudited)

The Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2016. Since this information is designed to focus on current year activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is $75,313,097, of which $64,783,328 is in net investment in capital assets and $3,571,021 is restricted to specific purposes.

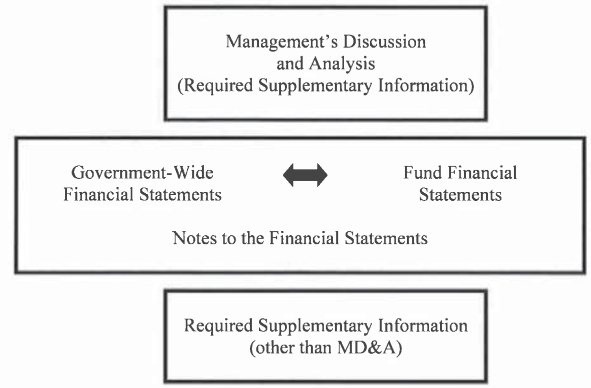
- Houston County's net position decreased by $2,500,741 for the year ended December 31, 2016.

- The net cost of governmental activities for the current fiscal year was $16,278,729. The net cost was funded by general revenues, including taxes and grants.

- Governmental funds' fund balances increased by $573,670.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



There are two government-wide financial statements. The Statement of Net Position and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Government-wide financial statements start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as an agent for the benefit of those outside of the government.

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

Our analysis of the County as a whole is shown on Exhibits 1 and 2. The Statement of Net Position and the Statement of Activities report information about the County as a whole and about its activities in a way that helps the reader determine whether the County's financial condition has improved or declined as a result of the year's activities. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net position and changes in them. You can think of the County's net position--the difference between assets and deferred outflows of resources from liabilities and deferred inflows of resources--as one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the County's property tax base and the condition of County roads, to assess the overall health of the County.

The Statement of Activities presents information showing how the County's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future years. The activities of Houston County are presented as governmental activities because they are principally supported by taxes and intergovernmental revenues. The County's basic services are reported here, including general government, public safety, transportation, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development.

Fund Financial Statements

Our analysis of the County's major funds begins on page 17. The fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

The County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation following each governmental fund financial statement.

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or fiduciary, over assets that can be used only by other governments, nonprofits, or individuals. All of the County's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations.

THE COUNTY AS A WHOLE

The County's net position decreased $2,500,741 from $77,813,838 to $75,313,097.

Table 1
Net Position
(in Millions)

	2016	2015
Assets		
Current and other assets	$ 21.1	$ 21.2
Capital assets	80.2	81.5
Total Assets	$ 101.3	$ 102.7
Deferred Outflows of Resources		
Deferred pension outflows	$ 7.8	$ 1.0
Liabilities		
Long-term liabilities	$ 31.1	$ 23.6
Other liabilities	1.2	1.5
Total Liabilities	$ 32.3	$ 25.1
Deferred Inflows of Resources		
Deferred pension inflows	$ 1.5	$ 0.8
Net Position		
Net investment in capital assets	$ 64.8	$ 65.5
Restricted	3.6	4.1
Unrestricted	6.9	8.2
Total Net Position, as reported	$ 75.3	$ 77.8

Net position of the County's governmental activities decreased by 3.2 percent ($75,313,097 compared to $77,813,838).

Table 2
Change in Net Position
(in Millions)

	2016	2015
Revenues		
Program revenues		
Fees, charges, fines, and other	$ 3.1	$ 2.7
Operating grants and contributions	10.5	10.3
Capital grants and contributions	0.1	1.7
General revenues		
Property taxes	11.3	11.0
Other taxes and payments in lieu of taxes	0.6	0.6
Grants and contributions	1.4	1.3
Other general revenues	0.5	0.4
Total Revenues	$ 27.5	$ 28.0
Expenses		
General government	$ 4.5	$ 4.2
Public safety	5.4	4.0
Transportation	10.7	6.2
Human services	5.0	4.1
Health	1.8	1.7
Sanitation	1.0	0.9
Culture and recreation	0.3	0.4
Conservation of natural resources	0.3	0.3
Economic development	0.4	0.4
Interest	0.6	0.6
Total Expenses	$ 30.0	$ 22.8
Increase (Decrease) in Net Position	$ (2.5)	$ 5.2
Net Position - January 1, as restated	77.8	72.6*
Net Position - December 31	$ 75.3	$ 77.8

*Amount includes a change in accounting principles

Governmental Activities

The cost of all governmental activities this year was $29,999,574. However, as shown in the Statement of Activities, the amount that the taxpayers ultimately financed for these activities through County property taxes was only $11,348,976, because some of the cost was paid by

those who directly benefited from the programs ($3,122,488) or by other governments and organizations that subsidized certain programs with grants and contributions ($10,598,357). The County paid for the remaining "public benefit" portion of governmental activities with $13,777,988 in general revenues, primarily property taxes and other revenues, such as interest and general entitlements, resulting in a decrease to net position of $2,500,741.

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

Table 3
Governmental Activities
(in Millions)

	Total Cost of Services		Net Cost (Revenue) of Services	
	2016	2015	2016	2015
Transportation	$ 10.7	$ 6.2	$ 4.8	$ (2.0)
Public safety	5.4	4.0	4.3	3.4
Human services	5.0	4.1	1.3	1.3
General government	4.5	4.2	3.9	3.5

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, 2016, Houston County's governmental funds reported combined ending fund balances of $18,059,739, an increase of $573,670 in comparison with 2015. The County is reporting an unassigned fund balance of $4,868,157 in 2016. 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, 2016, unassigned fund balance was $4,868,157, while total fund balance was $6,004,507. 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 39.4 percent of total General Fund expenditures, while total fund balance represents 48.6 percent of the same amount. While the 2016 General Fund final budget reflected a $300,177 use of fund balance, the General Fund ended the year adding $22,901 to fund balance. The General Fund December 31, 2016 fund balance of $6,004,507 did not significantly change from the 2015 balance of $5,981,606.

The Road and Bridge Special Revenue Fund's fund balance increased by $178,307 to $8,967,067, of which $7,814,250 is assigned. The Road and Bridge Department collected $201,220 in wheelage tax revenue. This money is designated to fund the future County Road 249 paving project. This is a planned fund balance increase. It should also be noted that in 2016 another Federal Disaster for flooding was declared. The Road and Bridge Department saw $345,982 in additional flood supplies which were offset by underspending in various areas, such as salaries due to attrition, less overtime along with decreases in fuel expenses and parts.

The Social Services Special Revenue Fund's fund balance increased by $306,877 to $1,947,333, all of which is assigned. The increase in fund balance is the result of additional revenue in the Medical Assistance program and Estate Collections along with various program administration revenue increases.

General Fund Budgetary Highlights

Houston County revised its General Fund budget during 2016, increasing expected revenues by 2.27 and increasing appropriations by 2.50 percent, respectively. For the year ended December 31, 2016, expenditures were less than final budget by $19,067.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the County had $80,180,256 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net decrease (including additions and deductions) of $1,345,586, or 1.7 percent, under last year. More detailed information about the County's capital assets can be found in Note 2.A. of the financial statements.

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

	2016	2015
Land	$ 3.2	$ 3.2
Construction in progress	0.1	0.1
Buildings and improvements	18.1	18.2
Machinery, furniture, and equipment	3.3	3.1
Infrastructure	55.5	56.9
Totals	$ 80.2	$ 81.5

(Unaudited)

Long-Term Debt

At the end of the current fiscal year, the County had total general obligation bonds outstanding in the amount of $15,396,927, as shown in Table 5. More detailed information about the County's long-term liabilities is presented in Note 2.C. to the financial statements.

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

	2016	2015
G.O. bonds	$ 15.4	$ 16.0

Other obligations include loans payable, compensated absences, pension benefits, and other postemployment benefits. Houston County issued no additional debt in 2016.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2017 budget, tax rates, and fees that will be charged for the government-type activities.

- The unemployment rate in Houston County increased, moving from 3.83 percent in 2015 to 3.98 percent in 2016 for the annual average. This is lower than the U.S. average of 4.73 percent but higher than the Minnesota rate of 3.88 percent.

- County General Fund expenditures for 2017 are budgeted to increase 0.5 percent from the 2016 level.

- Houston County's population decreased by 5.2 percent from 2006 (19,869) to 2016 (18,834), compared to an increase of 5.7 percent in Minnesota as a whole. Citizens age 65+ comprise 19.19 percent of the County's population.

- The proposed property tax levy has increased 2.0 percent for 2017.

- During 2017, Houston County officials will continue discussing options for repair or replacement of the County Highway facility. The County will also be considering the repurposing or demolition of the Historic Jail and the use of the insurance settlement following the 2014 damage to the unoccupied building that occurred when the sprinkler system malfunctioned.

(Unaudited)

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.

(Unaudited)

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 3

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General	Road and Bridge	Social Services	Nonmajor Fund Debt Service	Total
Assets					
Cash and pooled investments	$ 4,541,743	$ 7,284,949	$ 1,087,580	$ 1,134,778	$ 14,049,050
Petty cash and change funds	17,060	100	-	-	17,160
Investments	803,026	1,493,660	701,748	-	2,998,434
Taxes receivable					
Delinquent	113,483	38,027	21,203	20,211	192,924
Accounts receivable - net	92,656	1,119	164,371	-	258,146
Loans receivable	568,657	-	-	-	568,657
Accrued interest receivable	32,332	2,734	601	-	35,667
Due from other funds	3,908	-	-	-	3,908
Due from other governments	159,470	1,845,913	452,659	-	2,458,042
Prepaid expense	12,805	-	-	-	12,805
Inventories	-	537,737	-	-	537,737
Total Assets	**$ 6,345,140**	**$ 11,204,239**	**$ 2,428,162**	**$ 1,154,989**	**$ 21,132,530**
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	$ 84,829	$ 117,651	$ 123,085	$ -	$ 325,565
Salaries payable	111,064	27,903	37,383	-	176,350
Contracts payable	-	200,496	-	-	200,496
Due to other funds	-	-	3,908	-	3,908
Due to other governments	21,781	7,580	169,763	-	199,124
Unearned revenue	6,028	4,785	43,157	-	53,970
Customer deposits	25,720	-	-	-	25,720
Total Liabilities	**$ 249,422**	**$ 358,415**	**$ 377,296**	**$ -**	**$ 985,133**
Deferred Inflows of Resources					
Unavailable revenue	$ 91,211	$ 1,809,651	$ 103,533	$ 14,157	$ 2,018,552
Advance from other governments	-	69,106	-	-	69,106
Total Deferred Inflows of Resources	**$ 91,211**	**$ 1,878,757**	**$ 103,533**	**$ 14,157**	**$ 2,087,658**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 3
(Continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General	Road and Bridge	Social Services	Nonmajor Fund Debt Service	Total
Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)					
Fund Balances					
Nonspendable					
Prepaid items	$ 12,805	$ -	$ -	$ -	$ 12,805
Long-term loans receivable	362,700	-	-	-	362,700
Inventories	-	537,737	-	-	537,737
Restricted for					
Debt service	-	-	-	1,140,832	1,140,832
Recorder's technology equipment	95,877	-	-	-	95,877
Recorder's compliance	123,152	-	-	-	123,152
E-911	111,425	-	-	-	111,425
Economic development loans	242,289	-	-	-	242,289
Conceal and carry	124,283	-	-	-	124,283
Sheriff's DUI forfeiture	32,774	-	-	-	32,774
Attorney forfeited property	10,301	-	-	-	10,301
Wheelage tax	-	615,080	-	-	615,080
Committed					
Airport project	20,744	-	-	-	20,744
Assigned					
Transportation	-	7,814,250	-	-	7,814,250
Human services	-	-	1,947,333	-	1,947,333
Unassigned	4,868,157	-	-	-	4,868,157
Total Fund Balances	**$ 6,004,507**	**$ 8,967,067**	**$ 1,947,333**	**$ 1,140,832**	**$ 18,059,739**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 6,345,140**	**$ 11,204,239**	**$ 2,428,162**	**$ 1,154,989**	**$ 21,132,530**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES DECEMBER 31, 2016

Fund balances - total governmental funds (Exhibit 3)		**$ 18,059,739**
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.		80,180,256
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,018,552
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in the governmental funds.		7,777,315
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	$ (115,200)	
Bonds payable	(15,380,000)	
Bond discount	31,181	
Bond premium	(48,108)	
Accrued interest payable	(234,071)	
Net pension liability	(13,993,955)	
Net OPEB obligation	(423,138)	
Compensated absences	(1,158,635)	(31,321,926)
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(1,400,839)
Net Position of Governmental Activities (Exhibit 1)		**$ 75,313,097**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General	Road and Bridge	Social Services	Nonmajor Fund Debt Service	Total
Revenues					
Taxes	$ 6,819,164	$ 2,316,063	$ 1,239,118	$ 1,183,753	$ 11,558,098
Licenses and permits	96,225	7,820	-	-	104,045
Intergovernmental	2,985,544	6,639,600	3,043,742	50,478	12,719,364
Charges for services	1,887,561	287,992	265,018	-	2,440,571
Fines and forfeits	10,541	-	-	-	10,541
Gifts and contributions	5,100	-	-	-	5,100
Investment earnings	213,139	22,782	11,301	-	247,222
Miscellaneous	252,588	19,894	522,298	-	794,780
Total Revenues	**$ 12,269,862**	**$ 9,294,151**	**$ 5,081,477**	**$ 1,234,231**	**$ 27,879,721**
Expenditures					
Current					
General government	$ 4,372,197	$ -	$ -	$ -	$ 4,372,197
Public safety	4,089,525	-	-	-	4,089,525
Transportation	-	8,833,254	-	-	8,833,254
Sanitation	939,729	-	-	-	939,729
Human services	-	-	4,774,600	-	4,774,600
Health	1,648,818	-	-	-	1,648,818
Culture and recreation	638,011	-	-	-	638,011
Conservation of natural resources	332,956	-	-	-	332,956
Economic development	340,925	-	-	-	340,925
Intergovernmental	-	251,641	-	-	251,641
Debt service					
Principal	-	-	-	600,000	600,000
Interest	-	-	-	563,546	563,546
Administrative (fiscal) charges	-	-	-	5,100	5,100
Total Expenditures	**$ 12,362,161**	**$ 9,084,895**	**$ 4,774,600**	**$ 1,168,646**	**$ 27,390,302**
Excess of Revenues Over (Under Expenditures)	**$ (92,299)**	**$ 209,256**	**$ 306,877**	**$ 65,585**	**$ 489,419**
Other Financing Sources (Uses)					
Loan issued	$ 115,200	$ -	$ -	$ -	$ 115,200
Proceeds from sale of capital assets	-	36,991	-	-	36,991
Total Other Financing Sources (Uses)	**$ 115,200**	**$ 36,991**	**$ -**	**$ -**	**$ 152,191**
Net Change in Fund Balance	**$ 22,901**	**$ 246,247**	**$ 306,877**	**$ 65,585**	**$ 641,610**
Fund Balance - January 1	**5,981,606**	**8,788,760**	**1,640,456**	**1,075,247**	**17,486,069**
Increase (decrease) in inventories)	**-**	**(67,940)**	**-**	**-**	**(67,940)**
Fund Balance - December 31	**$ 6,004,507**	**$ 8,967,067**	**$ 1,947,333**	**$ 1,140,832**	**$ 18,059,739**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2016

Net change in fund balances - total governmental funds (Exhibit 5)		**$ 641,610**
Amounts reported for governmental activities in the statement of activities are different because:		
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.		
Deferred inflows of resources - December 31	$ 2,018,552	
Deferred inflows of resources - January 1	(2,477,616)	(459,064)
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, in the statement of activities, only the gain or loss on the disposal of assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets sold.		
Expenditures for general capital assets and infrastructure	$ 1,350,733	
Current year depreciation	(2,696,319)	(1,345,586)
Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net position. Also, governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of net position.		
Proceeds of new debt		
Loan issued	$ (115,200)	
Principal repayments		
General obligation bonds	600,000	
Current year amortization of discounts and premiums	3,350	488,150
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	$ (78,082)	
Change in accrued interest payable	6,129	
Change in net pension liability	(7,823,746)	
Change in net OPEB obligation	(26,752)	
Change in deferred pension outflows	6,726,013	
Change in deferred pension inflows	(561,473)	
Change in inventories	(67,940)	(1,825,851)
Change in Net Position of Governmental Activities (Exhibit 2)		**$ (2,500,741)**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2016

		Agency Funds
Assets		
Cash and pooled investments	$	1,244,500
Liabilities		
Accounts payable	$	139,392
Due to other governments		1,105,108
Total Liabilities	**$**	**1,244,500**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2016. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

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

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

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures and Jointly-Governed Organizations

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the primary government and its component unit. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities are normally supported by taxes and intergovernmental revenues.

The government-wide statement of net position is presented on a consolidated basis by column and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues. The County does not allocate indirect expenses to functions within the financial statements.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

Additionally, the County reports the following fund types:

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

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

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2016, 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 2016 were $213,139.

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016

Assets		
Cash and pooled investments	$	14,049,050
Petty cash and change funds		17,160
Investments		2,998,434
Taxes receivable		
Delinquent		192,924
Accounts receivable - net		258,146
Accrued interest receivable		35,667
Loans receivable		568,657
Due from other governments		2,458,042
Inventories		537,737
Prepaid items		12,805
Capital assets		
Non-depreciable		3,307,221
Depreciable - net of accumulated depreciation		76,873,035
Total Assets	**$**	**101,308,878**
Deferred Outflows of Resources		
Deferred pension outflows	**$**	**7,777,315**
Liabilities		
Accounts payable	$	325,565
Salaries payable		176,350
Contracts payable		200,496
Due to other governments		199,124
Accrued interest payable		234,071
Unearned revenue		53,970
Customer deposits		25,720
Long-term liabilities		
Net OPEB obligation		423,138
Net pension liability		13,993,955
Due within one year		706,692
Due in more than one year		15,964,070
Total Liabilities	**$**	**32,303,151**
Deferred Inflows of Resources		
Advance from other governments	$	69,106
Deferred pension inflows		1,400,839
Total Deferred Inflows of Resources	**$**	**1,469,945**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016

Net Position		
Net investment in capital assets	$	64,783,328
Restricted for		
General government		229,330
Public safety		268,482
Debt service		1,140,832
Transportation		1,690,088
Economic development		242,289
Unrestricted		6,958,748
Total Net Position	**$**	**75,313,097**

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, 2016

		Program Revenues			
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenues and Change in Net Position
Functions/Programs					
Primary government					
Governmental activities					
General government	$ 4,534,284	$ 427,037	$ 167,314	$ -	$ (3,939,933)
Public safety	5,392,071	291,327	840,520	-	(4,260,224)
Transportation	10,690,685	297,037	5,441,646	107,293	(4,844,709)
Sanitation	981,857	548,899	68,710	-	(364,248)
Human services	4,978,336	776,554	2,866,171	-	(1,335,611)
Health	1,788,762	722,023	758,643	-	(308,096)
Culture and recreation	341,403	50,225	-	-	(291,178)
Conservation of natural resources	337,043	1,074	125,948	-	(210,021)
Economic development	395,966	8,312	222,112	-	(165,542)
Interest	559,167	-	-	-	(559,167)
Total Governmental Activities	**$ 29,999,574**	**$ 3,122,488**	**$ 10,491,064**	**$ 107,293**	**$ (16,278,729)**

General Revenues	
Property taxes	$ 11,348,976
Mortgage registry and deed tax	14,379
Wheelage tax	201,220
Other taxes	1,976
Payments in lieu of tax	342,469
Grants and contributions not restricted to specific programs	1,349,597
Unrestricted investment earnings	247,222
Miscellaneous	235,158
Gain on sale of capital assets	36,991
Total general revenues	**$ 13,777,988**
Change in net position	**$ (2,500,741)**
Net Position - Beginning	**77,813,838**
Net Position - Ending	**$ 75,313,097**

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

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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

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

All receivables are shown net of an allowance for uncollectibles.

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

3. Inventories and Prepaid Items

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

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

1. Summary of Significant Accounting Policies

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than $10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value.

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

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

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

5. Compensated Absences

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

1. Summary of Significant Accounting Policies

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

6. Unearned Revenue

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

7. Pension Plan

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

8. Long-Term Obligations

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

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

1. Summary of Significant Accounting Policies

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

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County has one item, deferred pension outflows, which qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, differences between expected and actual pension plan economic experience, differences between projected and actual earnings on pension plan investments, changes in actuarial assumptions, and pension plan changes in proportionate share, and accordingly, are reported only in the statement of net position. No deferred outflows of resources affect the governmental funds financial statements in the current year.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) or reduction of expense until that time. The County reports three types of items, unavailable revenue, advance from other governments, and deferred pension inflows, that qualify for reporting in this category. Unavailable revenue arises only under a modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred pension inflows arise only under an accrual basis of accounting and, accordingly, are reported only in the statement of net position. This amount consists of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share. The County reports advance from other governments for state aid received by the County not yet appropriated by the State of Minnesota. The advance is deferred and recognized when the timing requirements have been met. Advance from other governments are reported in the governmental funds balance sheet and on the government-wide statement of net position.

1. Summary of Significant Accounting Policies

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

10. Classification of Net Position

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

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

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

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

11. Classification of Fund Balances

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

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

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

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances (Continued)

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

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

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

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

12. Minimum Fund Balance

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

1. Summary of Significant Accounting Policies

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

12. Minimum Fund Balance (Continued)

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

13. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	$ 14,049,050
Petty cash and change funds	17,160
Investments	2,998,434
Statement of fiduciary net position	
Cash and pooled investments	1,244,500
Total Cash and Investments	$ 18,309,144

HOUSTON COUNTY
CALEDONIA, MINNESOTA

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk of obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2016, the County's deposits were not exposed to custodial credit risk.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) bankers' acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

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

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. It is the County's policy to minimize interest rate risk by: (1) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Interest Rate Risk (Continued)

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

Investment Type	Fair Value	Less Than 1 Year	1 - 3 Years	3 - 13 Years
Federal National Mortgage Association	$ 1,259	$ -	$ 1,259	$ -
Municipal Bonds	1,086,786	100,064	385,424	601,298
Negotiable certificates of deposit	4,462,662	-	2,327,253	2,135,409
Total Investments	$ 5,550,707	$ 100,064	$ 2,713,936	$ 2,736,707

Credit Risk

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

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

	Credit Rating	Rating Agency	Fair Value
Federal National Mortgage Association	AAA	Standard & Poor's	$ 1,259
Municipal Bonds	AAA/AA/AA+/A+ or Aa2	Standard & Poor's or Moody's	1,086,786

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County's policy is to minimize custodial credit risk by limiting investments with any one broker to no more than ten percent of its Securities Investor Protection Corporation coverage plus any excess coverage if provided. At December 31, 2016, none of Houston County's investments were subject to custodial credit risk.

Concentration of Credit Risk

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

As of December 31, 2016, the County did not have any investments in any one issuer that represented five percent or more of the County's total investments.

Fair Value Measurement

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

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Fair Value Measurement (Continued)

At December 31, 2016, the County had the following recurring fair value measurements.

		Fair Value Measurements Using		
	December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Debt securities				
Municipal Bonds	$ 1,086,786	$ -	$ 1,086,786	$ -
Federal National Mortgage Association	1,259	-	1,259	-
Negotiable certificates of deposit	4,462,662	-	4,462,662	-
Total Investments Included in the Fair Value Hierarchy	$ 5,550,707	$ -	$ 5,550,707	$ -

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

- Federal National Mortgage Association: a market approach by utilizing quoted market prices for identical securities in markets that are not active;
- Municipal Bonds: a market approach using quoted prices for similar securities in active markets; and
- Negotiable Certificates of Deposit: matrix pricing based on the securities' relationship to benchmark quoted prices.

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2016, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Accounts receivable, gross	$ 596,878
Less: allowance for uncollectible	(338,732)
Net Accounts Receivable	$ 258,146

Net receivables for governmental activities are collectible within the year.

Of the loans receivable, $200,298 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 $93,267 in flood loans not scheduled for collection in the subsequent year. The remaining loans receivable balance of $368,359 are for economic development loans, of which $313,429 is not scheduled for collection in the subsequent year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 1,171,809	$ 8,528	$ -	$ 1,180,337
Land - infrastructure right-of-way	1,779,146	-	-	1,779,146
Land improvements	251,088	-	-	251,088
Construction in progress - infrastructure	136,637	233,718	273,705	96,650
Total capital assets not depreciated	$ 3,338,680	$ 242,246	$ 273,705	$ 3,307,221

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings	$ 18,946,207	$ 141,583	$ -	$ 19,087,790
Building improvements	1,645,258	75,554	-	1,720,812
Other improvements	622,287	172,674	-	794,961
Machinery, furniture, and equipment	6,890,360	731,749	226,899	7,395,210
Infrastructure	103,009,567	260,632	4,935	103,265,264
Total capital assets depreciated	$ 131,113,679	$ 1,382,192	$ 231,834	$ 132,264,037
Less: accumulated depreciation for				
Buildings	$ 2,173,133	$ 378,569	$ -	$ 2,551,702
Building improvements	753,370	33,482	-	786,852
Other improvements	125,653	13,579	-	139,232
Machinery, furniture, and equipment	3,813,041	528,746	226,899	4,114,888
Infrastructure	46,061,320	1,741,943	4,935	47,798,328
Total accumulated depreciation	$ 52,926,517	$ 2,696,319	$ 231,834	$ 55,391,002
Total capital assets depreciated, net	$ 78,187,162	$ (1,314,127)	$ -	$ 76,873,035
Governmental Activities Capital Assets, Net	$ 81,525,842	$ (1,071,881)	$ 273,705	$ 80,180,256

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General government	$ 114,300
Public safety	442,406
Highways and streets, including depreciation of infrastructure assets	2,060,207
Human Services	4,887
Sanitation	14,902
Culture and recreation	4,576
Economic development	55,041
Total Depreciation Expense - Governmental Activities	$ 2,696,319

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2016, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Social Services	$ 3,908

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

C. Liabilities

1. Construction Commitments

Houston County has active construction projects as of December 31, 2016. The project includes the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	$ 577,868	$ 144,423

2. Long-Term Debt

Loans Payable

In December of 2016, Houston County received a grant of $192,000 from the Minnesota Department of Employment and Economic Development. The County used the grant to make an installment loan to fund an economic development project in the County. The County is entitled to 40% of the principal repaid plus interest at 2%. The remaining $115,200 plus interest is to be repaid to the state. Payments on the state loan will begin in January of 2017 with monthly payments of $1,060 and will be made until December 2026. Total payments due from 2017 to 2026, including interest of $11,908 at December 31, 2016, are $127,108. The loan payments will be made from the General Fund.

2. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt

Loans Payable (Continued)

Loans Payable requirements at December 31, 2016, were as follows:

Year Ending December 31	State Loan Principal	State Loan Interest
2017	10,588	2,132
2018	10,726	1,994
2019	10,942	1,778
2020	11,163	1,557
2021	11,388	1,332
2022-2026	60,393	3,115
Total	$ 115,200	$ 11,908

Bonds

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2016
2009B G.O. Capital Improvement Plan Bonds	2019	$178,793 - $462,144	2.00-3.25	$ 2,865,000	$ 1,125,000
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	1,785,000
2010B G.O. Jail Bonds	2031	$214,006 - $1,396,950	4.00-4.25	5,220,000	5,220,000
Total General Obligation Bonds				$ 18,030,000	$ 15,380,000

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

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Debt Service Requirements

Debt service requirements at December 31, 2016, were as follows:

Year Ending December 31	General Obligation Bonds Principal	Interest
2017	$ 615,000	$ 547,761
2018	780,000	528,425
2019	805,000	505,410
2020	830,000	480,617
2021	945,000	452,647
2022 - 2026	5,185,000	1,739,480
2027 - 2031	6,220,000	658,009
Total	$ 15,380,000	$ 4,912,349

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
2009B G.O. Capital Improvement Plan Bonds	$ 1,510,000	$ -	$ 385,000	$ 1,125,000	$ 445,000
2009C G.O. Jail Bonds	7,250,000	-	-	7,250,000	-
2010A G.O. Capital Improvement Plan Bonds	2,000,000	-	215,000	1,785,000	170,000
2010B G.O. Jail Bonds	5,220,000	-	-	5,220,000	-
Premium on bonds	54,750	-	6,642	48,108	-
Less: discount on bonds	(34,473)	-	(3,292)	(31,181)	-
Total bonds payable	$ 16,000,277	$ -	$ 603,350	$ 15,396,927	$ 615,000
Loans payable	-	115,200	-	115,200	10,588
Compensated absences	1,080,553	961,868	883,786	1,158,635	81,104
Long-Term Liabilities	$ 17,080,830	$ 1,077,068	$ 1,487,136	$ 16,670,762	$ 706,692

2. Detailed Notes on All Funds

C. Liabilities

4. Changes in Long-Term Liabilities (Continued)

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

D. Deferred Outflows/Inflows of Resources and Unearned Revenue

1. Deferred Outflows of Resources

There were no deferred outflows of resources reported in the governmental funds for the year ended December 31, 2016 in the governmental funds.

2. Unearned Revenue/Deferred Inflows of Resources

As of December 31, 2016, there were various components of unearned and unavailable revenue for the governmental funds as follows:

	Unearned Revenue	Unavailable Revenue
Delinquent property taxes	$ -	$ 135,716
Loans receivable	6,028	-
Intergovernmental	47,942	1,808,706
Other	-	74,130
Total Governmental Funds	$ 53,970	$ 2,018,552

In addition to unavailable revenue, the County has an advance from other governments recorded as a deferred inflow of resources in the governmental funds. The advance consists of an allotment for state aid received by the County but not yet appropriated by the State of Minnesota. Total advance from other governments as of December 31, 2016, are $69,106.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

All full-time and certain part-time employees of Houston County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan, the Public Employees Police and Fire Plan, and the Local Government Correctional Service Retirement Plan (the Public Employees Correctional Plan), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years and increasing 5 percent for each year of service until fully vested after 20 years.

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

HOUSTON COUNTY
CALEDONIA, MINNESOTA

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. Minneapolis Employees Retirement Fund members have an annuity accrual rate of 2.0 percent of average salary for each of the first ten years of service and 2.5 percent for each remaining year. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Basic members, Coordinated members, and Minneapolis Employees Retirement Fund members were required to contribute 9.10 percent, 6.50 percent, and 9.75 percent, respectively, of their annual covered salary in 2016. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2016. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2016.

In 2016, the County was required to contribute the following percentages of annual covered salary:

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

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

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

3. Contributions (Continued)

The County's contributions for the year ended December 31, 2016, to the pension plans were:

General Employees Retirement Plan	$	475,097
Public Employees Police and Fire Plan		166,829
Public Employees Correctional Plan		81,965

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

4. Pension Costs

General Employees Retirement Plan

At December 31, 2016, the County reported a liability of $8,176,341 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.1007 percent. It was 0.0959 percent measured as of June 30, 2015. The County recognized pension expense of $1,240,468 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized $31,836 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute $6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

Houston County's proportionate share of the net pension liability	$ 8,176,341
State of Minnesota's proportionate share of the net pension liability associated with the Houston County	106,770
Total	$ 8,283,111

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 655,760
Changes in actuarial assumptions	1,600,935	-
Difference between projected and actual investment earnings	1,534,061	-
Changes in proportion	62,190	240,804
Contributions paid to PERA subsequent to the measurement date	244,775	-
Total	$ 3,441,961	$ 896,564

The $244,775 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

HOUSTON COUNTY
CALEDONIA, MINNESOTA

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

Year Ended December 31	Pension Expense Amount
2017	$ 600,465
2018	600,465
2019	804,349
2020	295,343

Public Employees Police and Fire Plan

At December 31, 2016, the County reported a liability of $4,173,700 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.104 percent. It was 0.100 percent measured as of June 30, 2015. The County recognized pension expense of $720,976 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized $9,360 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute $9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 472,906
Changes in actuarial assumptions	2,296,970	-
Difference between projected and actual investment earnings	630,996	-
Changes in proportion	37,874	14,401
Contributions paid to PERA subsequent to the measurement date	88,763	-
Total	$ 3,054,603	$ 487,307

The $88,763 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	$ 531,539
2018	531,539
2019	531,539
2020	482,047
2021	401,869

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Plan

At December 31, 2016, the County reported a liability of $1,643,914 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.45 percent. It was 0.43 percent measured as of June 30, 2015. The County recognized pension expense of $462,853 for its proportionate share of the Public Employees Correctional Plan's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 1,287	$ 16,968
Changes in actuarial assumptions	1,047,371	-
Difference between projected and actual investment earnings	182,766	-
Changes in proportion	3,074	-
Contributions paid to PERA subsequent to the measurement date	46,253	-
Total	$ 1,280,751	$ 16,968

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

The $46,253 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	$ 391,374
2018	391,374
2019	399,481
2020	35,301

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2016, was $2,424,297.

5. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

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

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables, while mortality rates for Public Employees Police and Fire Plan and Public Employees Correctional Plan were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent. Cost of living benefit increases for retirees are assumed to be 2.5 percent for the Public Employees Correctional Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015. The experience study for the Public Employees Police and Fire Plan was for the period 2004 through 2009. The experience study for the Public Employees Correctional Plan was for the period 2006 through 2011.

On August 16, 2016, an updated experience study was done for PERA's Public Employees Police and Fire Plan for the period 2011 through 2015, which would result in a larger pension liability. However, PERA will implement the changes in assumptions for its June 30, 2017, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.5 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In the Public Employees Police and Fire Plan and the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056, and June 30, 2058, respectively. Beginning in fiscal years ended June 30, 2057, for the Police and Fire Plan and June 30, 2059, for the Public Employees Correctional Plan, when projected benefit payments exceed the Plans' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60 percent for the Public Employees Police and Fire Plan and 5.31 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of the projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits through the point of asset depletion and 2.85 percent thereafter.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

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

Public Employees Police and Fire Plan

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

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions (Continued)

Public Employees Correctional Plan

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

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

8. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	Proportionate Share of the General Employees Retirement Plan		Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	$ 11,612,827	4.60%	$ 5,842,627	4.31%	$ 2,475,225
Current	7.50	8,176,341	5.60	4,173,700	5.31	1,643,914
1% Increase	8.50	5,345,611	6.60	2,810,061	6.31	994,914

9. Pension Plan Fiduciary Net Position

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

3. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by Houston County during the year ended December 31, 2016, were:

	Employee	Employer
Contribution amount	$ 11,052	$ 11,052
Percentage of covered payroll	5%	5%

C. Other Postemployment Benefits (OPEB)

Plan Description

The County provides health insurance benefits for certain retired employees under a single-employer, self-insured health care plan, financed and administered by the Southeast Service Cooperative and Houston County. Blue Cross and Blue Shield of Minnesota (BCBSM), under contract with the Southeast Service Cooperative, is the Claims Administrator. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Active employees, who retire from the County when eligible to receive a retirement benefit from PERA (or a similar plan) and do not participate in any

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Plan Description (Continued)

other health benefits program providing coverage similar to that herein described, are eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the County's health benefits program.

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

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for 2016, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan:

ARC	$ 84,073
Interest on net OPEB obligations	17,837
Adjustment to ARC	(25,210)
Annual OPEB Cost	$ 76,700
Contribution during the year	(49,948)
Increase in net OPEB obligation	$ 26,752
Net OPEB - Beginning of Year	396,386
Net OPEB - End of Year	$ 423,138

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for the years ended December 31, 2014, 2015, and 2016, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage Of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2014	$ 78,910	$ 24,281	30.8%	$ 353,647
December 31, 2015	77,753	35,014	45.0	396,386
December 31, 2016	76,700	49,948	65.1	423,138

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

Funded Status

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2014	$ -	$ 591,403	$ 591,403	0.0 %	$ 6,566,800	9.0%

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

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

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

4. Summary of Significant Contingencies and Other Items

A. Risk Management

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

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $500,000 per claim in 2016 and $500,000 in 2017. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

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 2016.

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.

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

C. Jointly-Governed Organizations

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

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

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

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.

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.

4. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Houston County, in conjunction with other local governments, participates in the State of Minnesota's Sentence to Serve (STS) program. STS is a project of the State Department of Administration's Strive Toward Excellence in Performance (STEP) program. STEP's goal is a statewide effort to make positive improvements in public services. It gives the courts an alternative to jail or fines for the nonviolent offenders who can work on a variety of community or state projects. Private funding, funds from various foundations and initiative funds, as well as the Minnesota Departments of Corrections and Natural Resources, provide the funds needed to operate the STS program. Although Houston County has no operational or financial control over the STS program, Houston County paid $90,398 to the program during the year.

The Southeast Minnesota Immunization Connection (SEMIC) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. During the year, the County made payments of $43,892 to SEMIC.

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 $175 to the Cooperative.

The Workforce Development provides various job training services to several counties. During the year, Houston County paid $99,250 to the Workforce Development.

The Southeastern Minnesota Community Action Council (SEMCAC) provides various services emergency on behalf of member counties to assist people to achieve or maintain independence and self-reliance through their own and community resources. SEMCAC provides services in Dodge, Fillmore, Freeborn, Houston, Mower, Steele, and Winona Counties. It also provides housing and redevelopment for Houston County through Bluff Country. During the year, Houston County paid $72,302 to SEMCAC.

4. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created the Minnesota Counties Computer Cooperative (MCCC) to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, Houston County paid $113,648 to the MCCC.

D. Joint Ventures

Southeastern Minnesota Library

The Southeastern Minnesota Library provides regional library services to counties and cities in southeastern Minnesota. During the year, Houston County paid $146,732 to the Library.

Southeast Minnesota Regional Emergency Communications Board

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

The financial activities of the Board are accounted for by Olmsted County as the fiscal agent. During 2016, Houston County paid $1,000 to the Board.

Southeast Minnesota Violent Crime Enforcement Team (SEMVCET)

Houston County and other regional counties and cities have formed the Southeast Minnesota Violent Crime Enforcement Team under the authority of Minn. Stat. § 471.59 to work cooperatively in the enforcement of controlled substance laws and violent

HOUSTON COUNTY
CALEDONIA, MINNESOTA

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southeast Minnesota Violent Crime Enforcement Team (SEMVCET) (Continued)

crime-related offenses. The SEMVCET is governed by a governing board made up of members known as "Directors". The Chief Law Enforcement Officer from each member county and member city shall serve as a Director.

Olmsted County has been appointed as the fiscal agent for SEMVCET. During 2016, Houston County paid $6,000 to the SEMVCET.

Family Services Collaborative

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

Control of the Collaborative is vested in a Board of Directors. Houston County appoints two members to this Board. Houston County acts as fiscal agent for the Collaborative. The Collaborative is financed by state grants and appropriations from participating members. During 2016, Houston County provided no funding. In the event of withdrawal from the Collaborative, the withdrawing party shall give a 30-day notice. The withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of termination shall be distributed by the governing board.

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

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT A-1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	$ 6,879,821	$ 6,880,521	$ 6,819,164	$ (61,357)
Licenses and permits	62,730	63,180	96,225	33,045
Intergovernmental	2,513,154	2,691,043	2,985,544	294,501
Charges for services	1,952,182	1,978,628	1,887,561	(91,067)
Fines and forfeits	9,000	9,000	10,541	1,541
Gifts and contributions	3,000	3,000	5,100	2,100
Investment earnings	108,100	158,100	213,139	55,039
Miscellaneous	284,934	297,579	252,588	(44,991)
Total Revenues	**$ 11,812,921**	**$ 12,081,051**	**$ 12,269,862**	**$ 188,811**
Expenditures				
Current				
General government				
Commissioners	$ 272,709	$ 238,031	$ 198,817	$ 39,214
Courts	55,000	55,000	67,820	(12,820)
County auditor	234,156	234,156	227,677	6,479
Motor vehicle/license bureau	113,319	107,260	104,269	2,991
County treasurer	169,911	169,911	167,406	2,505
County assessor	382,633	382,633	365,943	16,690
Elections	50,963	35,810	39,972	(4,162)
Finance	200,682	200,693	172,458	28,235
Data processing	454,596	552,641	531,983	20,658
Personnel	212,535	212,535	212,937	(402)
Attorney	564,288	573,583	564,855	8,728
Recorder	260,216	278,084	270,583	7,501
Surveyor	187,474	187,474	168,043	19,431
Planning and zoning	253,712	253,716	237,657	16,059
Buildings and plant	578,177	561,079	589,705	(28,626)
Veterans Service	130,791	102,493	90,924	11,569
GIS	36,710	36,710	45,481	(8,771)
Other general government	408,515	337,507	315,667	21,840
Total general government	**$ 4,566,387**	**$ 4,519,316**	**$ 4,372,197**	**$ 147,119**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 1,681,127	$ 1,822,590	$ 1,825,747	$ (3,157)
Boat and water safety	12,250	12,250	16,138	(3,888)
Emergency services	116,345	133,661	116,004	17,657
Coroner	53,800	53,800	53,846	(46)
E-911 system	185,758	187,524	174,203	13,321
County jail	1,545,407	1,605,456	1,632,848	(27,392)
Community corrections	284,296	284,296	270,739	13,557
Total public safety	**$ 3,878,983**	**$ 4,099,577**	**$ 4,089,525**	**$ 10,052**
Sanitation				
Solid waste	$ 681,172	$ 681,172	$ 723,315	$ (42,143)
Recycling	289,945	289,945	216,414	73,531
Total sanitation	**$ 971,117**	**$ 971,117**	**$ 939,729**	**$ 31,388**
Health				
Nursing services	$ 1,662,015	$ 1,753,663	$ 1,631,818	$ 121,845
Transportation	11,500	11,500	11,500	-
Health center (waivered services)	5,500	5,500	5,500	-
Total health	**$ 1,679,015**	**$ 1,770,663**	**$ 1,648,818**	**$ 121,845**
Culture and recreation				
Historical society	$ 42,500	$ 42,500	$ 42,500	$ -
Parks	107,109	141,379	380,801	(239,422)
County/regional library	146,742	146,742	146,742	-
Other culture and recreation	120,000	120,000	67,968	52,032
Total culture and recreation	**$ 416,351**	**$ 450,621**	**$ 638,011**	**$ (187,390)**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Expenditures				
Current (Continued)				
Conservation of natural resources				
County extension	$ 164,229	$ 167,526	$ 163,616	$ 3,910
Soil and water conservation	129,000	129,000	129,000	-
Agriculture society/County fair	18,000	18,000	18,000	-
Water planning	22,672	22,672	22,340	332
Total conservation of natural resources	**$ 333,901**	**$ 337,198**	**$ 332,956**	**$ 4,242**
Economic development				
Community development	$ 80,685	$ 80,685	$ 257,342	$ (176,657)
Airport	142,665	142,665	74,232	68,433
Other economic development	9,710	9,386	9,351	35
Total economic development	**$ 233,060**	**$ 232,736**	**$ 340,925**	**$ (108,189)**
Total Expenditures	**$ 12,078,814**	**$ 12,381,228**	**$ 12,362,161**	**$ 19,067**
Excess of Revenues Over (Under) Expenditures	**$ (265,893)**	**$ (300,177)**	**$ (92,299)**	**$ 207,878**
Other Financing Sources (Uses)				
Loan issued	$ -	$ -	$ 115,200	$ 115,200
Net Change in Fund Balance	**$ (265,893)**	**$ (300,177)**	**$ 22,901**	**$ 323,078**
Fund Balance - January 1	**5,981,606**	**5,981,606**	**5,981,606**	**-**
Fund Balance - December 31	**$ 5,715,713**	**$ 5,681,429**	**$ 6,004,507**	**$ 323,078**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT A-2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	$ 2,338,566	$ 2,342,656	$ 2,316,063	$ (26,593)
Licenses and permits	5,000	7,200	7,820	620
Intergovernmental	9,051,982	6,824,795	6,639,600	(185,195)
Charges for services	152,500	166,137	287,992	121,855
Investment earnings	8,500	17,250	22,782	5,532
Miscellaneous	9,204	8,048	19,894	11,846
Total Revenues	**$ 11,565,752**	**$ 9,366,086**	**$ 9,294,151**	**$ (71,935)**
Expenditures				
Current				
Transportation				
Administration	$ 276,922	$ 278,331	$ 273,217	$ 5,114
Maintenance	2,722,070	2,780,047	2,851,876	(71,829)
Construction	7,594,657	5,228,631	4,681,419	547,212
Equipment maintenance and shop	1,119,103	1,160,734	1,026,742	133,992
Total transportation	**$ 11,712,752**	**$ 9,447,743**	**$ 8,833,254**	**$ 614,489**
Intergovernmental				
Highways and streets	-	-	251,641	(251,641)
Total Expenditures	**$ 11,712,752**	**$ 9,447,743**	**$ 9,084,895**	**$ 362,848**
Excess of Revenues Over (Under) Expenditures	**$ (147,000)**	**$ (81,657)**	**$ 209,256**	**$ 290,913**
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	7,000	7,000	36,991	29,991
Net Change in Fund Balance	**$ (140,000)**	**$ (74,657)**	**$ 246,247**	**$ 320,904**
Fund Balance - January 1	**8,788,760**	**8,788,760**	**8,788,760**	**-**
Increase (decrease) in inventories	**-**	**-**	**(67,940)**	**(67,940)**
Fund Balance - December 31	**$ 8,648,760**	**$ 8,714,103**	**$ 8,967,067**	**$ 252,964**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT A-3

BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	$ 1,255,255	$ 1,255,255	$ 1,239,118	$ (16,137)
Intergovernmental	2,666,236	2,666,236	3,043,742	377,506
Charges for services	240,000	240,000	265,018	25,018
Investment earnings	10,000	10,000	11,301	1,301
Miscellaneous	287,402	287,402	522,298	234,896
Total Revenues	**$ 4,458,893**	**$ 4,458,893**	**$ 5,081,477**	**$ 622,584**
Expenditures				
Current				
Human services				
Income maintenance	$ 1,751,000	$ 1,751,568	$ 2,016,670	$ (265,102)
Social services	2,747,719	2,747,719	2,757,930	(10,211)
Total Expenditures	**$ 4,498,719**	**$ 4,499,287**	**$ 4,774,600**	**$ (275,313)**
Net Change in Fund Balance	**$ (39,826)**	**$ (40,394)**	**$ 306,877**	**$ 347,271**
Fund Balance - January 1	**1,640,456**	**1,640,456**	**1,640,456**	**-**
Fund Balance - December 31	**$ 1,600,630**	**$ 1,600,062**	**$ 1,947,333**	**$ 347,271**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT A-4

SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2008	$ -	$ 503,862	$ 503,862	0.00%	$ 6,203,278	8.12%
January 1, 2011	-	815,921	815,921	0.00	6,937,733	11.76
January 1, 2014	-	591,403	591,403	0.00	6,566,800	9.01

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT A-5

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Houston County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.1007%	$ 8,176,341	$ 106,770	$ 8,283,111	$ 5,560,161	148.97%	68.91%
2015	0.0959	4,967,497	N/A	4,967,497	5,828,943	85.22	78.20

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

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT A-6

SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	$ 475,097	$ 475,097	$ -	$ 6,334,627	7.50%
2015	420,031	420,031	-	5,600,413	7.50

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

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT A-7

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.104%	$ 4,173,700	$ 968,970	430.74%	63.88%
2015	0.100	1,136,234	920,237	123.47	86.60

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT A-8

SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	$ 166,829	$ 166,829	$ -	$ 1,029,809	16.20%
2015	152,447	152,447	-	941,029	16.20

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

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT A-9

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2016

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.450%	$ 1,643,914	$ 821,174	200.19%	58.16%
2015	0.430	66,478	776,864	8.56	96.90

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT A-10

SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2016

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	$ 81,965	$ 81,965	$ -	$ 936,732	8.75%
2015	69,914	69,914	-	799,026	8.75

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

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

1. Budgetary Information

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

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the County Finance Director so that a budget can be prepared. Before September 30th, the proposed budget is presented to the Houston County Board of Commissioners for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The County's department head may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made supplementary appropriations to the General, Road and Bridge Special Revenue, and Social Services Special Revenue Funds.

2. Excess of Expenditures Over Budget

The Social Services Fund expenditures of $4,774,600 exceeded the final budget of $4,499,287 by $275,313 due to increases in personnel services.

3. Other Postemployment Benefits

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

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

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

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2016:

General Employees Retirement Plan

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

Public Employees Police and Fire Plan

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

Public Employees Correctional Plan

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT B-1

BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,181,558	$ 1,181,558	$ 1,183,753	$ 2,195
Intergovernmental	48,270	48,270	50,478	2,208
Total Revenues	**$ 1,229,828**	**$ 1,229,828**	**$ 1,234,231**	**$ 4,403**
Expenditures				
Debt service				
Principal	$ 645,750	$ 645,750	$ 600,000	$ 45,750
Interest	584,078	584,078	563,546	20,532
Administrative (fiscal) charges	-	-	5,100	(5,100)
Total Expenditures	**$ 1,229,828**	**$ 1,229,828**	**$ 1,168,646**	**$ 61,182**
Net Change in Fund Balance	$ -	$ -	**$ 65,585**	**$ 65,585**
Fund Balance - January 1	**1,075,247**	**1,075,247**	**1,075,247**	-
Fund Balance - December 31	**$ 1,075,247**	**$ 1,075,247**	**$ 1,140,832**	**$ 65,585**

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.

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT C-1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Balance January 1	Additions	Deductions	Balance December 31
CROOKED CREEK WATERSHED				
Assets				
Cash and pooled investments	$ 415	$ 26,812	$ 26,741	$ 486
Liabilities				
Due to other governments	$ 415	$ 26,812	$ 26,741	$ 486
HEALTH				
Assets				
Cash and pooled investments	$ 27,389	$ 68,804	$ 64,681	$ 31,512
Liabilities				
Accounts payable	$ 27,389	$ 68,804	$ 64,681	$ 31,512
REVOLVING				
Assets				
Cash and pooled investments	$ 56,356	$ 4,083,031	$ 4,087,085	$ 52,302
Liabilities				
Due to other governments	$ 56,356	$ 4,083,031	$ 4,087,085	$ 52,302

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, 2016

	Balance January 1	Additions	Deductions	Balance December 31
SOIL AND WATER CONSERVATION				
Assets				
Cash and pooled investments	$ 535,901	$ 509,692	$ 366,702	$ 678,891
Liabilities				
Due to other governments	$ 535,901	$ 509,692	$ 366,702	$ 678,891
SCHOOL DISTRICTS				
Assets				
Cash and pooled investments	$ 147,205	$ 6,473,845	$ 6,489,043	$ 132,007
Liabilities				
Due to other governments	$ 147,205	$ 6,473,845	$ 6,489,043	$ 132,007
FAMILY COLLABORATIVE				
Assets				
Cash and pooled investments	$ 166,972	$ 80,958	$ 130,230	$ 117,700
Liabilities				
Due to other governments	$ 166,972	$ 80,958	$ 130,230	$ 117,700

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, 2016

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 110,154	$ 28,402,336	$ 28,404,610	$ 107,880
Liabilities				
Accounts payable	$ 110,154	$ 6,699,242	$ 6,701,516	$ 107,880
Due to other funds	-	13,044,874	13,044,874	-
Due to other governments	-	8,658,221	8,658,221	-
Total Liabilities	$ 110,154	$ 28,402,337	$ 28,404,611	$ 107,880
TOWNS AND CITIES				
Assets				
Cash and pooled investments	$ 133,707	$ 7,676,523	$ 7,686,508	$ 123,722
Liabilities				
Due to other governments	$ 133,707	$ 7,676,523	$ 7,686,508	$ 123,722

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, 2016

	Balance January 1	Additions	Deductions	Balance December 31
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 1,178,099	$ 47,322,001	$ 47,255,600	$ 1,244,500
Liabilities				
Accounts payable	$ 137,543	$ 6,768,046	$ 6,766,197	$ 139,392
Due to other funds	-	13,044,874	13,044,874	-
Due to other governments	1,040,556	27,509,082	27,444,530	1,105,108
Total Liabilities	$ 1,178,099	$ 47,322,002	$ 47,255,601	$ 1,244,500

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT D-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Appropriations and Shared Revenue		
State		
Highway users tax	$	6,227,081
PERA rate reimbursement		23,966
Disparity reduction aid		135,771
Police aid		106,116
County program aid		863,563
Aquatic invasive species aid		27,946
SCORE		68,710
Market value credit - agricultural		326,297
Enhanced 911		92,829
Total appropriations and shared revenue	$	7,872,279
Reimbursement for Services		
State		
Minnesota Department of Human Services	$	581,376
Payments		
Local		
Local-Collaborative Literacy	$	7,755
Local-SE service coop		20,281
Local-MOFAS		15,093
Payments in lieu of taxes		342,469
Total payments	$	385,598
Grants		
State		
Minnesota Department/Board of		
Public Safety	$	30,147
Health		233,402
Employment and Economic Development		197,000
Natural Resources		73,339
Human Services		1,333,174
Corrections		43,301
Transportation		204,471
Water and Soil Resources		98,002
Veterans Affairs		10,000
Peace Officer Standards and Training Board		4,065
Total state	$	2,226,901

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT D-1
(Continued)

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Grants (Continued)		
Federal		
Department of		
Agriculture	$	236,453
Justice		2,516
Transportation		91,185
Education		1,450
Health and Human Services		1,286,564
Homeland Security		33,430
Environmental Protection Agency		1,612
Total federal	$	1,653,210
Total state and federal grants	$	3,880,111
Total Intergovernmental Revenue	$	12,719,364

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT D-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Federal Grantor / Pass-Through Agency / Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	12-700-00072	$ 94,523
Passed Through Minnesota Department of Human Services			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN101S2514	141,930
Total U.S. Department of Agriculture			**$ 236,453**
U.S. Department of Justice			
Direct			
Bulletproof Vest Partnership Program	16.607		**$ 2,516**
U.S. Department of Transportation			
Passed Through Minnesota Department of Public Safety			
Highway Safety Cluster			
State and Community Highway Safety	20.600	A-ENFRC16-2016-HOUSTONSO-00017	$ 6,153
National Priority Safety Programs	20.616	A-ENFRC16-2016-HOUSTONSO-00017	3,236
(Total expenditures for Highway Safety Cluster $9,389)			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC16-2016-HOUSTONSO-00017	5,125
Total U.S. Department of Transportation			**$ 14,514**
U.S. Department of Education			
Passed Through Minnesota Department of Health			
Special Education - Grants for Infants and Families	84.181	75371	**$ 1,933**

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

HOUSTON COUNTY
CALEDONIA, MINNESOTA

EXHIBIT D-2
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Federal Grantor / Pass-Through Agency / Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Health			
Public Health Emergency Preparedness	93.069	12-700-00072	$ 30,160
Universal Newborn Hearing Screening	93.251	12-700-00072	200
Immunization Cooperative Agreements	93.268	12-700-00072	200
Temporary Assistance for Needy Families	93.558	12-700-00072	33,326
(Total Temporary Assistance for Needy Families 93.558 $158,396)			
Maternal and Child Health Services Block Grant to the States	93.994	12-700-00072	25,772
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	G-1601MNFPSS	2,132
Temporary Assistance for Needy Families	93.558	1601MFTANF	125,070
(Total Temporary Assistance for Needy Families 93.558 $158,396)			
Child Support Enforcement	93.563	1604MNCEST	318,261
Refugee and Entrant Assistance - State Administered Programs	93.566	1601MNRCMA	134
Child Care and Development Block Grant	93.575	G1601MNCCDF	3,975
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFRPG	3,595
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	1,157
Foster Care - Title IV-E	93.658	1601MNFOST	143,539
Social Services Block Grant	93.667	16-01MNSOSR	90,569
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	3,065
Medical Assistance Program	93.778	05-1605MN5ADM	516,961
Block Grants for Community Mental Health Services	93.958	SM010027-16	2,272
Total U.S. Department of Health and Human Services			**$ 1,300,388**
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012	HOUSTON FBG-04112016	$ 5,000
Passed Through Minnesota Department of Public Safety			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4290DRMNP00001041	37,075
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4290DRMNP0000141	63,104
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4290DRMNP00001111	26,507
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4290DRMNP00001391	40,864
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4290DRMNP00001511	19,684
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4290DRMNP00001671	42,609
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4290DRMNP00002111	61,843
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4290DRMNP00001571	51,203
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4290DRMNP00002251	29,611
(Total Disaster Grants - Public Assistance (Presidentially Declared Disasters) 97.036 $372,500)			
Hazard Mitigation Grant	97.039	F-HMGP-DR4131-HOUSTNCO-1423	10,930
Emergency Management Performance Grants	97.042	F-EMPG-2016-HOUSTNCO-1775	18,460
Total U.S. Department of Homeland Security			**$ 406,890**
Total Federal Awards			**$ 1,962,694**

The County did not pass through any federal awards to subrecipients during the year ended December 31, 2016.

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

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, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Houston County, it is not intended to and does not present the financial position or changes in net position of Houston County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Houston County has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

HOUSTON COUNTY
CALEDONIA, MINNESOTA

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue (Exhibit D-1)	$ 1,653,210
Unavailable in 2015, recognized as revenue in 2016	
Nonpoint Source Implementation Grants	(1,612)
Airport Improvement Program	(56,230)
Highway Planning and Construction	(20,441)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	(141,046)
Child Support Enforcement	(11,100)
Grants received more than 60 days after year-end, unavailable in 2016	
Special Education - Grants for Infants and Families	483
Emergency Management Performance Grants	960
Temporary Assistance for Needy Families	20,191
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	513,546
Promoting Safe and Stable Families	194
Child Care Development Block Grant	474
Stephanie Tubbs Jones Child Welfare Services Program	128
Chafee Foster Care Independence Program	1,665
Block Grants for Community Mental Health Services	2,272
Expenditures per Schedule of Expenditures of Federal Awards (Exhibit D-2)	$ 1,962,694

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Independent Auditor's Report

Board of County Commissioners
Houston County
Caledonia, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houston County, Minnesota, as of and for the year ended December 31, 2016, 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 18, 2017.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2008-002, 2013-001, 2016-001, and 2016-002, that we consider to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

Other Matters

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

Houston County's Response to Findings

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

Purpose of This Report

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

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

September 18, 2017

REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Houston County
Caledonia, Minnesota

Report on Compliance for the Major Federal Program

We have audited Houston County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2016. Houston County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

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

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for Houston County's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about Houston County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on the Major Federal Program

In our opinion, Houston County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2015-004 and 2016-003. Our opinion on the major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of Houston County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2015-003, 2015-004, and 2016-003, that we consider to be significant deficiencies.

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

Purpose of This Report

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

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

September 18, 2017

HOUSTON COUNTY
CALEDONIA, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

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

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

The major federal program is:

Medical Assistance Program CFDA No. 93.778

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 2008-002

Segregation of Duties - County Departments

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

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

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

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

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

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

View of Responsible Official: Concur

Finding Number 2013-001

Workstation Security

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

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

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

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

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

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

View of Responsible Official: Concur

ITEMS ARISING THIS YEAR

Finding Number 2016-001

PERA Internal Controls

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

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

Context: The Human Resources Technician creates the Contributions Transmission Reports each pay period for PERA withholdings and employer contributions, uploads the file to PERA, and also creates and completes the electronic funds transfers to PERA. There is no review or approval by another employee of the County.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements.

Cause: The County's procedures are to have the individual who submits the PERA withholdings reports to PERA also complete the payments for these contributions.

Recommendation: We recommend the County either segregate submissions of PERA withholdings reports from payments to PERA, or have an employee independent of payments to PERA review the PERA withholdings reports to ensure adequate segregation of duties.

View of Responsible Official: Acknowledge

Finding Number 2016-002

Segregation of Duties - IFS- General Ledger System Security Controls

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

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

Context: The ability to modify access levels is incompatible with individuals assigned accounting responsibilities including entering, reviewing, and monitoring financial information on the general ledger system because it provides those individuals unlimited access to make changes to the accounting records that may or may not be authorized by management or other users.

Effect: The ability to grant or modify access to the general ledger should be segregated from the responsibilities of entering, reviewing, and monitoring general ledger financial information to ensure the integrity of the financial records.

Cause: The additional access was given to an accounting employee when the Systems Administrator was out of the office and an employee had been locked out of the general ledger and could not complete their job tasks. Access was then never changed back for the accounting employee once the Systems Administrator returned.

Recommendation: We recommend personnel assigned to grant or modify access to the general ledger be segregated from personnel assigned to the general ledger accounting functions.

View of Responsible Official: Concur

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 2015-003

Reporting

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778); Award #05-1605MN5ADM, 2016

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

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

Requirements for the Local Collaborative Time Study (LCTS) Cost Schedules (DHS-3220 reports) are laid out in DHS Bulletin #16-32-04 - *Local Collaborative Time Study (LCTS) Fiscal Operations*. The bulletin states that LCTS fiscal site contacts are required to verify that the information on the LCTS Fiscal and Cost Schedule is accurate and that it complies with all guidelines set forth in the LCTS Cost Schedule instructions. It also states that the County's LCTS Fiscal Reporting and Payment Agent is required to review all cost schedules from participating agencies on or before the 20th calendar day following the end of each quarter.

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

Questioned Costs: None.

Context: The DHS-3220 reports are submitted on a quarterly basis by each member of the LCTS to DHS for reimbursement of LCTS money, which is reimbursed to the County with federal Medical Assistance Program funds. The Houston County Public Health Department acts as the LCTS fiscal reporting and payment agent for the local collaborative in Houston County and is responsible for preparing and submitting the Annual Spending and Collaborative Reports.

The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

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

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

Recommendation: We recommend the County implement procedures to ensure that the DHS-3220 and Annual Spending and Collaborative Reports required to be submitted are reviewed for accuracy and completeness by an individual independent of the preparer. Evidence of the review should be retained.

View of Responsible Official: Concur

Finding Number 2015-004

Eligibility

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778); Award #05-1605MN5ADM, 2016

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

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

Condition: DHS maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. When performing our case file review for eligibility, we noted that in one of the 40 case files tested, the asset information in the MAXIS system could not be verified to supporting documentation and a re-determination was not completed.

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

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

The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

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

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

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

View of Responsible Official: Concur

ITEM ARISING THIS YEAR

Finding Number 2016-003

Reporting - Accuracy

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778); Award #05-1605MN5ADM, 2016

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

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

Requirements for the Local Collaborative Time Study (LCTS) Cost Schedules (DHS-3220 reports) are laid out in DHS Bulletin #16-32-04 - *Local Collaborative Time Study (LCTS) Fiscal Operations*. The bulletin states that LCTS fiscal site contacts are required to verify that the information on the LCTS Fiscal and Cost Schedule is accurate and that it complies with all guidelines set forth in the LCTS cost schedules instructions. Reports are submitted to DHS. The information is prepared based on Houston County's general ledger.

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

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

Questioned Costs: DHS determines part of the County's quarterly federal reimbursement for multiple programs based upon LCTS statistics and, therefore, actual questioned costs could not be determined.

Context: The DHS-3220 report is submitted on a quarterly basis by the County to DHS for reimbursement of Local Collaborative Time Study money, which is reimbursed to the County with federal Medical Assistance funds. The LCTS Annual Collaborative Report is submitted annually to DHS.

The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: Reporting incorrect amounts to DHS could result in Houston County being reimbursed the incorrect amount of federal awards.

Cause: The County indicated they have a review process, it just didn't identify the inaccuracies.

Recommendation: We recommend the review process be improved to ensure the accuracy of the expenditures and the revenues recorded on the reporting form.

View of Responsible Official: Concur

IV. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2001-002

Disaster Recovery Plan

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

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other County employees;

- a plan as to how the County will continue operations until normal operations are re-established; this should include the use of alternative computer facilities and/or the use of manual procedures, a list of master operating schedules, and critical job schedules;
- a list of materials the County needs to continue operations and how they will be obtained;
- hardware configurations and minimum equipment requirements;
- information relative to offsite backup storage facilities;
- a list of vendor contracts;
- identification of the space to be used; and
- a schedule for developing and periodically reviewing and updating the plan.

Condition: While reviewing information technology controls and procedures, 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 that the County is prepared for a disaster or major computer breakdown.

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

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

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

View of Responsible Official: Concur

V. PREVIOUSLY REPORTED ITEMS RESOLVED

2015-001 Segregation of Duties - Payroll Maintenance
2015-002 Bank Reconciliations
2014-002 Prompt Payment of Invoices

REPRESENTATION OF HOUSTON COUNTY
CALEDONIA, MINNESOTA

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding Number: 2008-002
Finding Title: Segregation of Duties - County Departments

Name of Contact Person Responsible for Corrective Action:

Carol Lapham, Finance Director

Corrective Action Planned:

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

Anticipated Completion Date:

12/31/2017

Finding Number: 2013-001
Finding Title: Workstation Security

Name of Contact Person Responsible for Corrective Action:

Andrew Milde, IT Director

Corrective Action Planned:

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

Anticipated Completion Date:

12/31/2017

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

Name of Contact Person Responsible for Corrective Action:

Carol Lapham, Finance Director

Corrective Action Planned:

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

Anticipated Completion Date:

12/31/2017

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

Name of Contact Person Responsible for Corrective Action:

Andrew Milde, IT Director

Corrective Action Planned:

The accounting employee has been updated to no longer have access to the County User Maintenance function of the IFS General Ledger System.

Anticipated Completion Date:

1/24/2017

Finding Number: 2015-003
Finding Title: Reporting
Program: Medical Assistance Program (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action:

Carol Sherburne

Corrective Action Planned:

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

Anticipated Completion Date:

09/30/2017

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

Name of Contact Person Responsible for Corrective Action:

Karen Kohlmeyer

Corrective Action Planned:

One case in 2016 was not flagged by MAXIS for review and this was missed by the County. This review was completed in 2017. The County will implement procedures to ensure that future reviews are completed timely.

Anticipated Completion Date:

12/31/2017

Finding Number: 2016-003
Finding Title: Reporting - Accuracy
Program: Medical Assistance Program (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action:

Loretta Lillegraven

Corrective Action Planned:

Re-submitted corrected reports. Future reports will be reviewed for appropriate expenditures.

Anticipated Completion Date:

Reports have been re-submitted, but no response yet from the state.

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

Name of Contact Person Responsible for Corrective Action:

Andrew Milde, IT Director
Carol Lapham, Finance Director

Corrective Action Planned:

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

Anticipated Completion Date:

12/31/2018

REPRESENTATION OF HOUSTON COUNTY
CALEDONIA, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding Number: 2008-002
Finding Title: Segregation of Duties - County Departments

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

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

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

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

Finding Number: 2013-001
Finding Title: Workstation Security

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

Summary of Corrective Action Previously Reported: IT will implement a group policy setting that requires password entry to access workstations following periods of inactivity.

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

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

Finding Number: 2015-001
Finding Title: Segregation of Duties - Payroll Maintenance

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

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

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

Finding Number: 2015-002
Finding Title: Bank Reconciliations

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

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

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

Finding Number: 2015-003
Finding Title: Reporting
Program: Medical Assistance Program (CFDA No. 93.778)

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

Summary of Corrective Action Previously Reported: The Financial Supervisor will have the Director review and approve information to be submitted prior to submission.

Status: Not Corrected. The 2015 finding references the Public Health Nursing department and those reports are currently reviewed and approved. The Department of Corrections/Court Services reports also require this review and approval and this will be done in the future by the District Supervisor prior to submission.

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

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

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

Summary of Corrective Action Previously Reported: The asset policy was reviewed with staff regarding ReliaCard accounts and the need to verify balances.

Status: Not Corrected. One case in 2016 was not flagged by MAXIS for review and this was missed by the County. The review was completed in 2017. Future reviews will be completed timely.

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

Finding Number: 2014-002
Finding Title: Prompt Payment of Invoices

Summary of Condition: One of 25 invoices tested for compliance with this statute was not paid within 35 days, and interest was not calculated or paid.

Summary of Corrective Action Previously Reported: All departments will be reminded of the requirement set forth in Minn. Stat. § 471.425 regarding the prompt payment of invoices by the Finance Director.

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

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

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

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

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

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

APPENDIX B

FORM OF LEGAL OPINION

(See following page)

DORSEY
DORSEY & WHITNEY LLP

Houston County
Caledonia, Minnesota

[Purchaser]

Re: $9,975,000 General Obligation Refunding Bonds, Series 2017A
Houston County, Minnesota

Ladies and Gentlemen:

We have acted as Bond Counsel to Houston County, Minnesota (the Issuer) in connection with the authorization, issuance and sale by the Issuer of the obligations described above, dated, as originally issued, as of December 27, 2017 (the Bonds). For the purpose of rendering this opinion, we have examined certified copies of certain proceedings taken, and certain affidavits and certificates furnished, by the Issuer in the authorization, sale and issuance of the Bonds, including the form of the Bonds. As to questions of fact material to our opinion, we have assumed the authenticity of and relied upon the proceedings, affidavits and certificates furnished to us without undertaking to verify the same by independent investigation. From our examination of such proceedings, affidavits and certificates and on the basis of existing law, it is our opinion that:

1. The Bonds are valid and binding general obligations of the Issuer, enforceable in accordance with their terms.

2. To the extent the Bonds are not paid from other funds, ad valorem taxes are required by law to be levied on all taxable property in the Issuer for payment of the principal of and interest on the Bonds, which taxes are not subject to any limitation as to rate or amount.

3. Interest on the Bonds (a) is not includable in gross income for federal income tax purposes or in taxable net income of individuals, estates or trusts for Minnesota income tax purposes; (b) is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax; (c) is not an item of tax preference includable in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers or the Minnesota alternative minimum tax applicable to individuals, estates and trusts; and (d) is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of federal and Minnesota alternative minimum taxes.

4. The County has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the Code), and financial institutions described in Section 265(b)(5) of the Code may treat the Bonds for purposes of Sections 265(b)(2) and 291(e)(1)(B) of the Code as if they were acquired on August 7, 1986.

The opinions expressed in paragraphs 1 and 2 above are subject, as to enforceability, to the effect of any state or federal laws relating to bankruptcy, insolvency, reorganization, moratorium or creditors' rights and the application of equitable principles, whether considered at law or in equity.

The opinions expressed in paragraphs 3 and 4 above are subject to the condition of the Issuer's compliance with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon may be, and continue to be, excluded from gross income for federal income tax purposes and that the Bonds may be and continue to be qualified tax-exempt obligations. The Issuer has covenanted to comply with these continuing requirements. Its failure to do so could result in the inclusion of interest on the Bonds in federal gross income and in Minnesota taxable net income, retroactive to the date of issuance of the Bonds. Except as stated in this opinion, we express no opinion regarding federal, state or other tax consequences to holders of the Bonds.

We have not been asked, and have not undertaken, to review the accuracy, completeness or sufficiency of any offering materials relating to the Bonds, and, accordingly, we express no opinion with respect thereto.

Dated: December ____, 2017

Very truly yours,

APPENDIX C

BOOK-ENTRY-ONLY SYSTEM

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the County or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The County may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the County believes to be reliable, but the County takes no responsibility for the accuracy thereof.

APPENDIX D

FORM OF CONTINUING DISCLOSURE COVENANTS
(EXCERPTS FROM SALE RESOLUTION)

(See following page)

FORM OF CONTINUING DISCLOSURE

Continuing Disclosure. (a) Purpose and Beneficiaries. To provide for the public availability of certain information relating to the Bonds and the security therefor and to permit the Purchaser and other participating underwriters in the primary offering of the Bonds to comply with amendments to Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 C.F.R. § 240.15c2-12), relating to continuing disclosure (as in effect and interpreted from time to time, the Rule), which will enhance the marketability of the Bonds, the County hereby makes the following covenants and agreements for the benefit of the Owners (as hereinafter defined) from time to time of the Outstanding Bonds. The County is the only obligated person in respect of the Bonds within the meaning of the Rule for purposes of identifying the entities in respect of which continuing disclosure must be made. If the County fails to comply with any provisions of this section, any person aggrieved thereby, including the Owners of any Outstanding Bonds, may take whatever action at law or in equity may appear necessary or appropriate to enforce performance and observance of any agreement or covenant contained in this section, including an action for a writ of mandamus or specific performance. Direct, indirect, consequential and punitive damages shall not be recoverable for any default hereunder to the extent permitted by law. Notwithstanding anything to the contrary contained herein, in no event shall a default under this section constitute a default under the Bonds or under any other provision of this resolution. As used in this section, Owner or Bondowner means, in respect of a Bond, the registered owner or owners thereof appearing in the bond register maintained by the Registrar or any Beneficial Owner (as hereinafter defined) thereof, if such Beneficial Owner provides to the Registrar evidence of such beneficial ownership in form and substance reasonably satisfactory to the Registrar. As used herein, Beneficial Owner means, in respect of a Bond, any person or entity which (i) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Bond (including persons or entities holding Bonds through nominees, depositories or other intermediaries), or (ii) is treated as the owner of the Bond for federal income tax purposes.

(b) Information To Be Disclosed. The County will provide, in the manner set forth in subsection (c) hereof, either directly or indirectly through an agent designated by the County, the following information at the following times:

(1) on or before twelve (12) months after the end of each fiscal year of the County, commencing with the fiscal year ending December 31, 2017, the following financial information and operating data in respect of the County (the Disclosure Information):

(A) the audited financial statements of the County for such fiscal year, prepared in accordance with generally accepted accounting principles in accordance with the governmental accounting standards promulgated by the Governmental Accounting Standards Board or as otherwise provided under Minnesota law, as in effect from time to time, or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles for reasons beyond the reasonable control of the County, noting the discrepancies therefrom and the effect thereof, and certified as to accuracy and completeness in all material respects by the fiscal officer of the County; and

(B) to the extent not included in the financial statements referred to in paragraph (A) hereof, the information for such fiscal year or for the period most recently available of the type contained in the Official Statement under headings: “VALUATIONS—Current Property Valuations,” “DEBT—

Direct Debt," and "TAX RATES, LEVIES AND COLLECTIONS—Tax Levies and Collections" and "GENERAL INFORMATION—US Census Data-Population Trend" and "-Employment / Unemployment Data," which information may be unaudited.

Notwithstanding the foregoing paragraph, if the audited financial statements are not available by the date specified, the County shall provide on or before such date unaudited financial statements in the format required for the audited financial statements as part of the Disclosure Information and, within 10 days after the receipt thereof, the County shall provide the audited financial statements. Any or all of the Disclosure Information may be incorporated by reference, if it is updated as required hereby, from other documents, including official statements, which have been submitted to the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access System (EMMA) or to the SEC. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The County shall clearly identify in the Disclosure Information each document so incorporated by reference. If any part of the Disclosure Information can no longer be generated because the operations of the County have materially changed or been discontinued, such Disclosure Information need no longer be provided if the County includes in the Disclosure Information a statement to such effect; provided, however, if such operations have been replaced by other County operations in respect of which data is not included in the Disclosure Information and the County determines that certain specified data regarding such replacement operations would be a Material Fact (as defined in paragraph (2) hereof), then, from and after such determination, the Disclosure Information shall include such additional specified data regarding the replacement operations. If the Disclosure Information is changed or this section is amended as permitted by this paragraph (b)(1) or subsection (d), then the County shall include in the next Disclosure Information to be delivered hereunder, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

(2) In a timely manner not in excess of ten business days after the occurrence of the event, notice of the occurrence of any of the following events (each a Material Fact):

(A) Principal and interest payment delinquencies;
(B) Non-payment related defaults, if material;
(C) Unscheduled draws on debt service reserves reflecting financial difficulties;
(D) Unscheduled draws on credit enhancements reflecting financial difficulties;
(E) Substitution of credit or liquidity providers, or their failure to perform;
(F) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
(G) Modifications to rights of security holders, if material;
(H) Bond calls, if material, and tender offers;
(I) Defeasances;
(J) Release, substitution, or sale of property securing repayment of the securities, if material;
(K) Rating changes;
(L) Bankruptcy, insolvency, receivership or similar event of the obligated person;
(M) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(N) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

As used herein, for those events that must be reported if material, an event is "material" if it is an event as to which a substantial likelihood exists that a reasonably prudent investor would attach importance thereto in deciding to buy, hold or sell a Bond or, if not disclosed, would significantly alter the total information otherwise available to an investor from the Official Statement, information disclosed hereunder or information generally available to the public. Notwithstanding the foregoing sentence, an event is also "material" if it is an event that would be deemed material for purposes of the purchase, holding or sale of a Bond within the meaning of applicable federal securities laws, as interpreted at the time of discovery of the occurrence of the event.

For the purposes of the event identified in (L) hereinabove, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(3) In a timely manner, notice of the occurrence of any of the following events or conditions:

(A) the failure of the County to provide the Disclosure Information required under paragraph (b)(1) at the time specified thereunder;
(B) the amendment or supplementing of this section pursuant to subsection (d), together with a copy of such amendment or supplement and any explanation provided by the County under subsection (d)(2);
(C) the termination of the obligations of the County under this section pursuant to subsection (d);
(D) any change in the accounting principles pursuant to which the financial statements constituting a portion of the Disclosure Information are prepared; and
(E) any change in the fiscal year of the County.

(c) <u>Manner of Disclosure</u>.

(1) The County agrees to make available to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, the information described in subsection (b).

(2) All documents provided to the MSRB pursuant to this subsection (c) shall be accompanied by identifying information as prescribed by the MSRB from time to time.

(d) <u>Term; Amendments; Interpretation</u>.

(1) The covenants of the County in this section shall remain in effect so long as any Bonds are Outstanding. Notwithstanding the preceding sentence, however, the obligations of the County under this section shall terminate and be without further effect as of any date on which the County delivers to the Registrar an opinion of Bond Counsel to the effect that, because of legislative action or final judicial or administrative actions or proceedings, the failure of the County to comply with the requirements of this section

will not cause participating underwriters in the primary offering of the Bonds to be in violation of the Rule or other applicable requirements of the Securities Exchange Act of 1934, as amended, or any statutes or laws successory thereto or amendatory thereof.

(2) This section (and the form and requirements of the Disclosure Information) may be amended or supplemented by the County from time to time, without notice to (except as provided in paragraph (c)(3) hereof) or the consent of the Owners of any Bonds, by a resolution of this Board filed in the office of the recording officer of the County accompanied by an opinion of Bond Counsel, who may rely on certificates of the County and others and the opinion may be subject to customary qualifications, to the effect that: (i) such amendment or supplement (a) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the County or the type of operations conducted by the County, or (b) is required by, or better complies with, the provisions of paragraph (b)(5) of the Rule; (ii) this section as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of the Rule at the time of the primary offering of the Bonds, giving effect to any change in circumstances applicable under clause (i)(a) and assuming that the Rule as in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (iii) such amendment or supplement does not materially impair the interests of the Bondowners under the Rule.

If the Disclosure Information is so amended, the County agrees to provide, contemporaneously with the effectiveness of such amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

(3) This section is entered into to comply with the continuing disclosure provisions of the Rule and should be construed so as to satisfy the requirements of paragraph (b)(5) of the Rule.

APPENDIX E

TERMS OF PROPOSAL

$9,975,000* GENERAL OBLIGATION REFUNDING BONDS, SERIES 2017A
HOUSTON COUNTY, MINNESOTA

Proposals for the purchase of $9,975,000* General Obligation Refunding Bonds, Series 2017A (the "Bonds") of Houston County, Minnesota (the "County") will be received at the offices of Ehlers & Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Municipal Advisors to the County, until 12:00 P.M. (Noon), Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 12:00 P.M. (Noon), Central Time, on December 11, 2017, at which time they will be opened, read and tabulated. The proposals will be presented to the Board of Commissioners for consideration for award by resolution at a meeting to be held at 9:00 A.M., Central Time, on December 12, 2017. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the County will be accepted unless all proposals are rejected.

PURPOSE

The Bonds are authorized pursuant to Minnesota Statutes, Chapters 475 and 641, and Section 475.67, by the County, for the purpose of effecting an advance crossover refunding of certain outstanding general obligations of the County as more fully described herein. The Bonds will be general obligations of the County for which its full faith, credit and taxing powers are pledged.

DATES AND MATURITIES

The Bonds will be dated December 27, 2017, will be issued as fully registered Bonds in the denomination of $5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2021	$30,000	2025	$1,135,000	2029	$1,220,000
2022	270,000	2026	1,155,000	2030	1,255,000
2023	505,000	2027	1,180,000	2031	1,320,000
2024	705,000	2028	1,200,000		

ADJUSTMENT OPTION

* The County reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

TERM BOND OPTION

Proposals for the Bonds may contain a maturity schedule providing for any combination of serial bonds and term bonds, subject to mandatory redemption, so long as the amount of principal maturing or subject to mandatory redemption in each year conforms to the maturity schedule set forth above. All dates are inclusive.

INTEREST PAYMENT DATES AND RATES

Interest will be payable on February 1 and August 1 of each year, commencing August 1, 2018, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2021 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

BOOK-ENTRY-ONLY FORMAT

Unless otherwise specified by the purchaser, the Bonds will be designated in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds, and will be responsible for maintaining a book-entry system for recording the interests of its participants and the transfers of interests between its participants. The participants will be responsible for maintaining records regarding the beneficial interests of the individual purchasers of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, all payments of principal and interest will be made to the depository which, in turn, will be obligated to remit such payments to its participants for subsequent disbursement to the beneficial owners of the Bonds.

PAYING AGENT/ESCROW AGENT

The City has selected Bond Trust Services Corporation, Roseville, Minnesota (“BTSC”), to act as paying agent (the "Paying Agent") and Zions Bank, a division of ZB, National Association, Chicago, Illinois, as escrow agent (the “Escrow Agent”). BTSC and Ehlers are affiliate companies. The City will pay the charges for Paying Agent and Escrow Agent services. The City reserves the right to remove the Paying Agent and/or Escrow Agent and to appoint a successor.

OPTIONAL REDEMPTION

At the option of the County, the Bonds maturing on or after February 1, 2028 shall be subject to optional redemption prior to maturity on February 1, 2027 and on any date thereafter, at a price of par plus accrued interest.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the County. If only part of the Bonds having a common maturity date are called for redemption, then the County or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

DELIVERY

On or about December 27, 2017, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the County will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the County, threatened. Payment for the Bonds must be received by the County at its designated depository on the date of closing in immediately available funds.

LEGAL OPINION

An opinion in substantially the form attached hereto as Appendix B will be furnished by Dorsey & Whitney LLP, Minneapolis, Minnesota, bond counsel to the County.

SUBMISSION OF PROPOSALS

Proposals must not be for less than $9,875,250 plus accrued interest on the principal sum of $9,975,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

1) Electronically to bondsale@ehlers-inc.com; or

2) Facsimile submission to Ehlers, Facsimile Number (651) 697-8555; or

3) Electronically via **PARITY** in accordance with this Terms of Proposal until 12:00 P.M. (Noon), Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact Ehlers or i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone (212) 849-5021.

Proposals must be submitted to Ehlers via one of the methods described above and must be received prior to the time established above for the opening of proposals. Each proposal must be unconditional except as to legality. Neither the County nor Ehlers shall be responsible for any failure to receive a facsimile submission.

A good faith deposit ("Deposit") in the amount of $199,500 shall be made by the winning bidder by wire transfer of funds to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138**. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. The County reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the County may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the County as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

The County and the winning bidder who chooses to so wire the Deposit hereby agree irrevocably that Ehlers shall be the escrow holder of the Deposit wired to such account subject only to these conditions and duties: 1) All income earned thereon shall be retained by the escrow holder as payment for its expenses; 2) If the proposal is not accepted, Ehlers shall, at its expense, promptly return the Deposit amount to the winning bidder; 3) If the proposal is accepted, the Deposit shall be returned to the winning bidder at the closing; 4) Ehlers shall bear all costs of maintaining the escrow account and returning the funds to the winning bidder; 5) Ehlers shall not be an insurer of the Deposit amount and shall have no liability hereunder except if it willfully fails to perform or recklessly disregards, its duties specified herein; and 6) FDIC insurance on deposits within the escrow account shall be limited to $250,000 per bidder.

No proposal can be withdrawn after the time set for receiving proposals unless the meeting of the County scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made.

AWARD

The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a True Interest Cost (TIC) basis. The County's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling. In the event of a tie, the sale of the Bonds will be awarded by lot. The County reserves the right to reject any and all proposals and to waive any informality in any proposal.

BOND INSURANCE

If the Bonds are qualified for any bond insurance policy, the purchase of such policy shall be at the sole option and expense of the winning bidder. Any cost for such insurance policy is to be paid by the winning bidder, except that, if the County requested and received a rating on the Bonds from a rating agency, the County will pay that rating fee. Any rating agency fees not requested by the County are the responsibility of the winning bidder.

Failure of the municipal bond insurer to issue the policy after the Bonds are awarded to the winning bidder shall not constitute cause for failure or refusal by the winning bidder to accept delivery of the Bonds.

CUSIP NUMBERS

The County will assume no obligation for the assignment or printing of CUSIP numbers on the Bonds or for the correctness of any numbers printed thereon, but will permit such numbers to be printed at the expense of the winning bidder, if the winning bidder waives any delay in delivery occasioned thereby.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The County will designate the Bonds as qualified tax-exempt obligations for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 the County will enter into an undertaking for the benefit of the holders of the Bonds. A description of the details and terms of the undertaking is set forth in Appendix D of the Preliminary Official Statement.

NEW ISSUE PRICING

The winning bidder will be required to provide, in a timely manner, certain information necessary to compute the yield on the Bonds pursuant to the provisions of the Internal Revenue Code of 1986, as amended, and to provide a certificate which will be provided by Bond Counsel upon request.

(a) The winning bidder shall assist the County in establishing the issue price of the Bonds and shall execute and deliver to the County at closing an "issue price" or similar certificate setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications, with such modifications as may be appropriate or necessary, in the reasonable judgment of the winning bidder, the County and Bond Counsel. All actions to be taken by the County under this Terms of Proposal to establish the issue price of the Bonds may be taken on behalf of the County by the County's municipal advisor identified herein and any notice or report to be provided to the County may be provided to the County's municipal advisor.

(b) The County intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

(1) The County shall disseminate this Terms of Proposal to potential underwriters in a manner that is reasonably designed to reach potential investors;

(2) all bidders shall have an equal opportunity to bid;

(3) the County may receive proposals from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and

(4) the County anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Terms of Proposal.

Any proposal submitted pursuant to this Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, as specified in this proposal.

(c) In the event that the competitive sale requirements are not satisfied, the County shall so advise the winning bidder. The winning bidder shall advise the County if any maturity of the Bonds satisfies the 10% test as of the date and time of the award of the Bonds . The County shall promptly advise the winning bidder, at or before the time of the award of the Bonds, which maturities (and if different interest rates apply within a maturity, which separate CUSIP number within that maturity) of the Bonds shall be subject to the 10% test or shall be subject to the hold-the-offering-price rule. proposals will <u>not</u> be subject to cancellation in the event that the hold-the-offering-price rule applies to any maturity of the Bonds. <u>Bidders should prepare their proposals on the assumption that some or all of the maturities of the Bonds will be subject to the hold-the-offering-price rule in order to establish the issue price of the Bonds.</u>

(d) By submitting a proposal, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the proposal submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

(1) the close of the fifth (5^{th}) business day after the sale date; or

(2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder shall promptly advise the County when the underwriters have sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5^{th}) business day after the sale date.

(e) The County acknowledges that, in making the representation set forth above, the winning bidder will rely on (i) the agreement of each underwriter to comply with the hold-the-price rule, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter is a party to a retail distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering price rule, as set forth in the retail distribution agreement and the related pricing wires. The County further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

(f) By submitting a proposal, each bidder confirms that (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public, and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder or such underwriter that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public, and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder or such underwriter and as set forth in the related pricing wires.

(g) Sales of any Bonds to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of this Terms of Proposal. Further, for purposes of this Terms of Proposal:

(i) "public" means any person other than an underwriter or a related party,

(ii) "underwriter" means (A) any person that agrees pursuant to a written contract with the County (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public),

(iii) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

(iv) "sale date" means the date that the Bonds are awarded by the County to the winning bidder.

PRELIMINARY OFFICIAL STATEMENT

Bidders may obtain a copy of the Preliminary Official Statement relating to the Bonds prior to the proposal opening by request from Ehlers at www.ehlers-inc.com by connecting to the Bond Sales link. The Syndicate Manager will be provided with an electronic copy of the Final Official Statement within seven business days of the proposal acceptance. Up to 10 printed copies of the Final Official Statement will be provided upon request. Additional copies of the Final Official Statement will be available at a cost of $10.00 per copy.

Information for bidders and proposal forms may be obtained from Ehlers at 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Telephone (651) 697-8500.

By Order of the Board of Commissioners

Houston County, Minnesota

PROPOSAL FORM

The Board of Commissioners
Houston County, Minnesota

December 12, 2017

RE: **$9,975,000* General Obligation Refunding Bonds, Series 2017A**
DATED: **December 27, 2017**

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you $__________________ (not less than $9,875,250) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

________	% due	2021	________	% due	2025	________	% due	2029
________	% due	2022	________	% due	2026	________	% due	2030
________	% due	2023	________	% due	2027	________	% due	2031
________	% due	2024	________	% due	2028			

* The County reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2021 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.) All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

We enclose our Deposit in the amount of $199,500, to be held by you pending delivery and payment. Alternatively, if we are the winning bidder, we will wire our Deposit to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138.** Such Deposit shall be received by Ehlers & Associates no later than two hours after the proposal opening time. The County reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received. In the event the Deposit is not received as provided above, the County may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. If our proposal is not accepted, said deposit shall be promptly returned to us. If the Deposit is wired to such escrow account, we agree to the conditions and duties of Ehlers & Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about December 27, 2017.

This proposal is subject to the County's agreement to enter into a written undertaking to provide continuing disclosure under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as described in the Preliminary Official Statement for this Issue.

We have received and reviewed the Official Statement and have submitted our requests for additional information or corrections to the Final Official Statement. As Syndicate Manager, we agree to provide the County with the reoffering price of the Bonds within 24 hours of the proposal acceptance.

This proposal is a firm offer for the purchase of the Bonds identified in the Terms of Proposal, on the terms set forth in this proposal form and the Terms of Proposal, and is not subject to any conditions, except as permitted by the Terms of Proposal.

By submitting this proposal, we confirm that we are an Underwriter and have an established industry reputation for underwriting new issuances of municipal bonds. YES: ____ NO: ____.

Account Manager: ______________________________ By: ______________________________
Account Members:

Award will be on a true interest cost basis. According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from December 27, 2017 of the above proposal is $_______________and the true interest cost (TIC) is __________%.

The foregoing offer is hereby accepted by and on behalf of the Board of Commissioners of Houston County, Minnesota, on December 12, 2017.

By: ______________________________ By: ______________________________

Title: ______________________________ Title: ______________________________