

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

YEAR ENDED DECEMBER 31, 2012

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

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INTRODUCTORY SECTION

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2012**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1 st District	Craig Spilde	January 2017
2 nd District	John Anderson	January 2017
3 rd District	Joe Bouvette, Chair	January 2015
4 th District	Leon Olson	January 2017
5 th District	Betty Younggren	January 2015
Officers		
Elected:		
Attorney	Roger Malm	January 2015
Auditor/Treasurer	Marilyn Gustafson ¹	January 2015
Recorder	Kristi Hultgren	January 2015
Sheriff	Kenny Hultgren	January 2015
Appointed:		
Assessor	Marian Paulson	December 2016
Highway Engineer	Kelly Bengtson	January 2015
Medical Examiner	Mary Ann Sens	Indefinite
Veterans Service Officer	Bob Cameron	May 2013
Environmental Officer	Barb O'Hara	Indefinite
Social Services Director	Kathleen Johnson	Indefinite
Administrator	Eric Christensen	Indefinite

¹ The Auditor/Treasurer resigned on December 31, 2012.

FINANCIAL SECTION



GOVERNMENTAL AUDIT SERVICES

Colleen Hoffman, Manager
Gordon Dale, CPA
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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Kittson County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kittson County, Minnesota, as of and for the year ended December 31, 2012, 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kittson County, Minnesota, as of December 31, 2012, 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.

As discussed in Notes I and II, Kittson County has implemented Governmental Accounting Standards Board Statement Nos. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and 65, *Items Previously Reported as Assets and Liabilities*, which required a change in accounting principles and resulted in adjustments to beginning net position.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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.

Accompanying Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kittson County's basic financial statements. The introductory section, the supplementary information, and the other schedules section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The supplementary information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory and other schedules sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

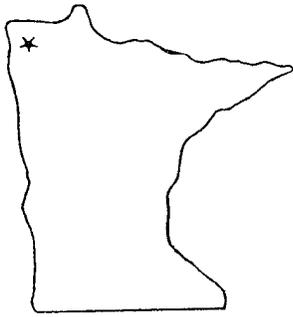
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2013, on our consideration of Kittson 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 the County's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Hoffman, Dale, & Swenson".

Hoffman, Dale, & Swenson, PLLC

August 29, 2013



Kittson County

Hallock, Minnesota 56728
TDD 218-843-3535

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The management of Kittson County offers readers of the County's Financial Statements this narrative overview and analysis of the financial activities of Kittson County for the fiscal year ended December 31, 2012. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the County's basic financial Statements that follow this section.

FINANCIAL HIGHLIGHTS

The total net position of governmental activities is \$60,883,064, of which \$54,229,081 is the net investment in capital assets, \$1,456,758 is restricted for specific purposes, and \$5,197,225 is unrestricted. The total net position of governmental activities increased by \$807,202 for the year ended December 31, 2012. This is attributed primarily to highway construction projects financed by County State Aid Highway funding.

At the close of 2012, the County's governmental funds reported combined ending fund balances of \$7,301,380, a decrease of \$958,911 from the prior year. Of the total fund balance amount, \$293,938 is non-spendable, \$1,462,067 is legally or contractually restricted, \$2,456,704 is formally committed for specific purposes, \$1,355,076 is assigned for specific purposes, and \$1,733,595 is noted as unassigned fund balance. Maintaining an adequate fund balance is necessary to provide County services throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Kittson County's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances. These statements include all assets, deferred outflows, liabilities, and deferred inflows using the accrual basis of accounting, which is similar to the accounting used by most private-sector businesses. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The *Statement of Net Position* presents information on all of the County's assets, deferred outflows, liabilities, and deferred inflows, with the residual of all elements reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal 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 only result in cash flows in future fiscal periods (e.g., uncollected taxes).

In the *Statement of Net Position* and the *Statement of Activities*, we divide the County into two kinds of activities:

- **Governmental activities**—Most of the County's basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.
- **Component unit**—The County includes one separate legal entity in its report. The North Kittson Rural Water System is presented in a separate column. Although legally separate, this "component unit" is important because the County is financially accountable for it. The North Kittson Rural Water System provides water for participating rural users and cities within the water district. Financing is provided by user service charges. Complete financial statements of the North Kittson Rural Water System can be obtained from the Kittson County Auditor's Office or the administrative offices of the Rural Water System in Lake Bronson, Minnesota 56734.

The government-wide financial statements can be found as Exhibits 1 and 2 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Kittson County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, fund-level financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the Balance Sheet – Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The County reports two governmental fund types: General and Special Revenue. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, the Road

and Bridge Special Revenue Fund, and the Social Services Special Revenue Fund, all of which are considered to be major funds. Data from the remaining special revenue funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in combining statements after the notes to the financial statements.

Kittson County adopts annual budgets for its governmental funds. Budgetary comparisons have been provided for these funds to demonstrate compliance with their budgets.

Fiduciary Funds Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. Kittson County's fiduciary funds consist of one investment trust fund and nine agency funds. Investment trust funds are used to account for the investment activities of others that the County holds in a fiduciary capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In addition, the Agency Funds are not reflected in the government-wide financial statements because those resources are not available to support the County's programs. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Fiduciary activities are reported on pages 25 and 79 through 81 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 26 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. The County also provides supplementary and other information including combining statements, budgetary comparison schedules, a ditch balance sheet, an unorganized townships balance sheet, and a schedule of intergovernmental revenue.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$60,883,064 at the close of 2012. The largest portion of the County's net position (approximately 89 percent) reflects its investment in capital assets (i.e., land, construction in progress, infrastructure, buildings and improvements, and machinery and equipment), net of related debt used to acquire those assets. It should be noted that this amount is not available for future spending. Approximately two percent of the County's net position is restricted and nine percent of the County's net position is unrestricted. The unrestricted net position amount of \$5,197,225, as of December 31, 2012, may be used to meet the County's ongoing obligations to citizens.

The County's overall financial position increased from last year. Total assets and deferred outflows of resources increased by \$1,780,388 from the prior year primarily due to the increase in capital assets which resulted from the County's highway construction projects and the upgrade of the courthouse heating, ventilation, air conditioning (HVAC), and lighting systems. Total liabilities and deferred inflows of resources increased by \$973,186, from the prior year, mainly due to an advance payment of the County's 2013 State Aid Highway allotment. This resulted in an increased net position of \$807,202 from the prior year.

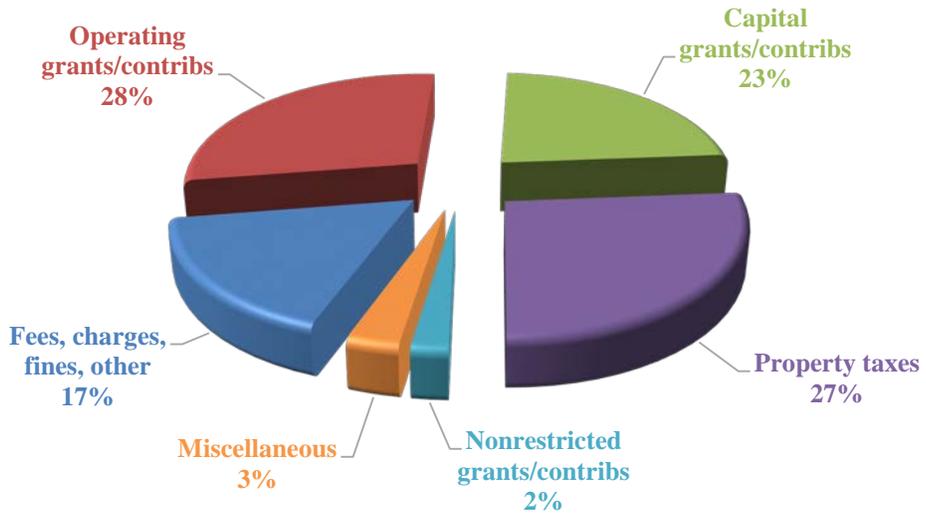
NET POSITION

	Primary Government	
	Governmental Activities	
	2012	2011 as restated
Current and other assets	\$ 8,211,412	\$ 9,468,818
Capital assets	54,229,081	52,483,930
Total assets	\$ 62,440,493	\$ 61,952,748
Deferred outflows		
County State Aid Highway Allotment	\$ 1,887,868	\$ 595,225
Other liabilities	\$ 1,159,907	\$ 720,776
Long-term liabilities outstanding	647,397	668,359
Total liabilities	\$ 1,807,304	\$ 1,389,135
Deferred inflows		
Taxes	\$ 40,382	\$ 36,027
Special assessments	-	158
County State Aid Highway Allotment	1,597,611	595,225
Public assistance	-	451,566
Total deferred inflows	\$ 1,637,993	\$ 1,082,976
Net position		
Net investment in capital assets	\$ 54,229,081	\$ 52,483,930
Restricted	1,456,758	2,222,835
Unrestricted	5,197,225	5,369,097
Total net position	\$ 60,883,064	\$ 60,075,862

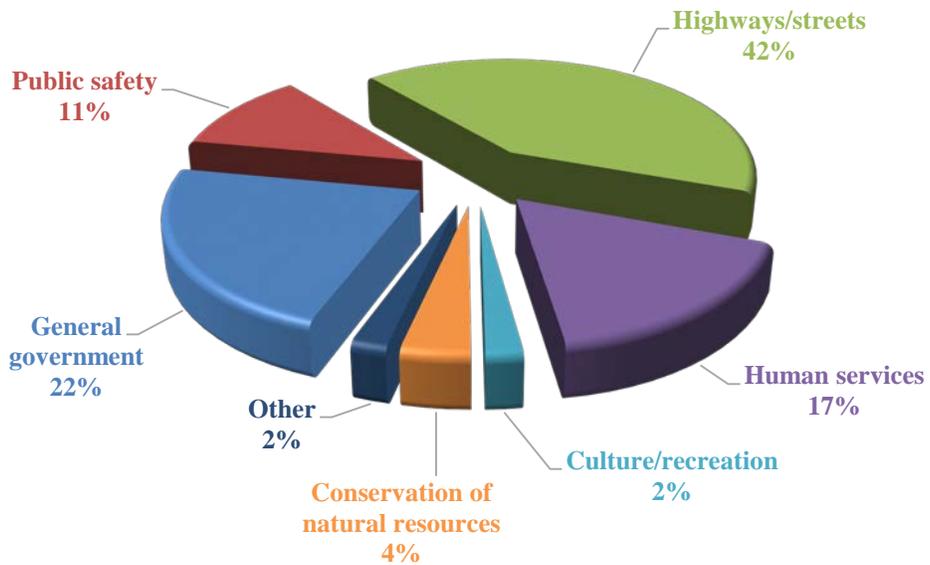
CHANGES IN NET POSITION

	Primary Government	
	Governmental Activities	
	2012	2011
Revenues		
Program Revenues		
Fees, charges, fines and other	\$ 1,926,538	\$ 1,873,165
Operating grants and contributions	3,225,381	3,694,000
Capital grants and contributions	2,595,128	2,855,194
General Revenues and Transfers		
Property taxes	3,016,297	2,838,727
Grants and contributions not restricted to specific programs	244,731	300,433
Payments in lieu of taxes	152,894	154,285
Insurance dividends	102,003	115,429
Investment earnings	103,814	165,950
Transfers	(8,894)	-
Total revenues	\$ 11,357,892	\$ 11,997,183
Expenses		
General government	\$ 2,362,117	\$ 2,332,270
Public safety	1,170,043	1,257,162
Highways and streets	4,383,748	4,543,758
Sanitation	88,480	89,076
Human services	1,812,465	1,530,003
Health	38,153	38,251
Culture and recreation	214,442	171,944
Conservation of natural resources	400,075	955,233
Economic development	81,167	42,800
Total expenses	\$ 10,550,690	\$ 10,960,497
Increase (decrease)	\$ 807,202	\$ 1,036,686
Net assets, January 1, as previously reported	-	60,122,152
Prior period adjustment	-	(1,082,976)
Net position, January 1, as restated	60,075,862	-
Net position, December 31	\$ 60,883,064	\$ 60,075,862

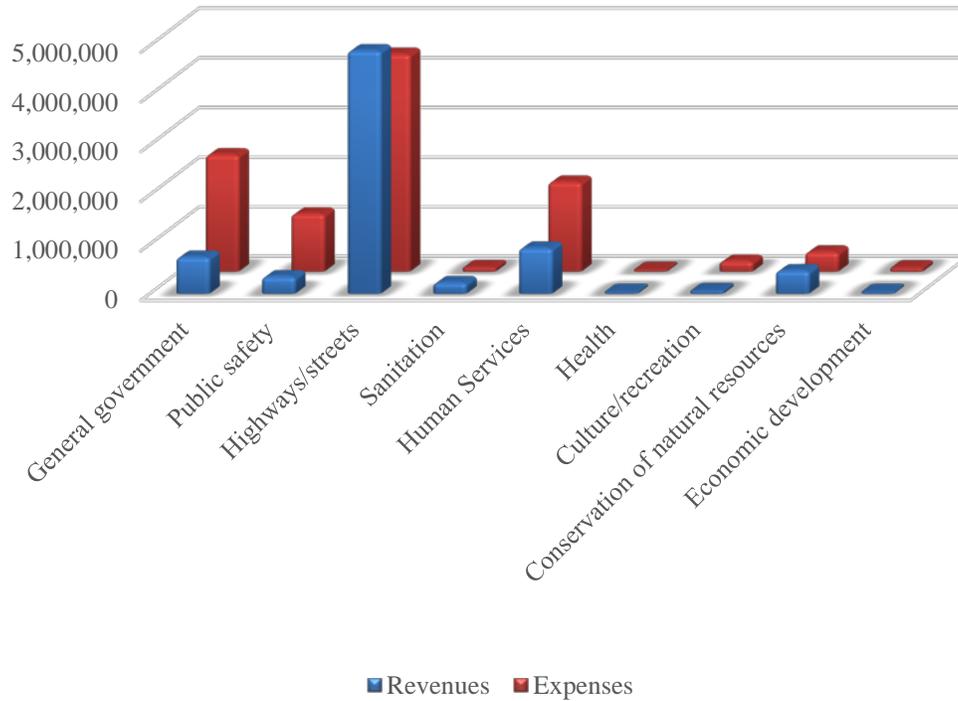
Revenues by Source



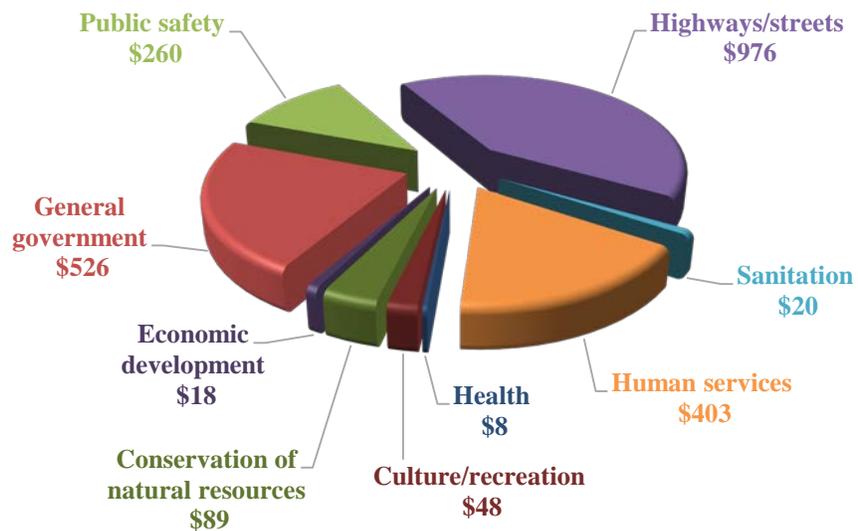
Expenses by Function



Program Revenues & Expenses



Expenditures Per Capita 4,493 Population as of July 1, 2012



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, with a focus on short-term inflows, outflows, and balances of spendable resources. In particular, unrestricted fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

Governmental Funds

At the end of 2012, the County's governmental funds reported combined ending fund balances of \$7,301,380. Of this amount, approximately four percent constitutes non-spendable fund balance, 20 percent constitutes legally or contractually restricted fund balance, 34 percent constitutes formally committed fund balance, 18 percent constitutes specifically assigned fund balance, and 24 percent constitutes unassigned fund balance.

The General Fund is the operating fund of the County. At the end of the current fiscal year, the General Fund's total fund balance was \$4,781,513. The General Fund's non-spendable fund balance was \$29,364, restricted fund balance was \$776,108, committed fund balance was \$2,126,704, and unassigned fund balance was \$1,849,337. As a measure of the General Fund's liquidity, it is useful to compare both unrestricted fund balance and total fund balance to total fund expenditures for 2012. Unrestricted fund balance represents 90 percent of total General Fund expenditures, while total fund balance represents 108 percent of that same amount.

In 2012, the fund balance amount in the General Fund decreased by \$742,246, primarily due to using unassigned fund balance to help pay for upgrades to the new HVAC and lighting systems in the courthouse.

The fund balance of the Road and Bridge Special Revenue Fund decreased by \$176,815 in 2012, due to not receiving any of the \$302,007 in state municipal road aid money that was budgeted.

The fund balance of the Social Services Special Revenue Fund decreased \$325,417 from the prior year due to an increase in child placements and their associated costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

The budget amendments in 2012 consisted of an overall increase in budgeted expenditures of \$949,291. Actual revenues were more than overall final budgeted revenues by \$155,674, with the largest positive variances in taxes, intergovernmental and miscellaneous revenues. Actual expenditures were less than overall final budgeted expenditures by \$37,833 as a result of most departments operating within budgeted expenditures.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2012, amounted to \$54,229,081 (net of accumulated depreciation). The total increase in the County's investment in capital assets for the current fiscal year was approximately three percent. This was primarily due to the ongoing construction of highway projects and completed projects added to infrastructure, in addition to various equipment purchases and improvements to the courthouse HVAC and lighting systems.

	Governmental Activities	
	2012	2011
Land	\$ 190,821	\$ 190,821
Construction in progress	642,423	1,202,956
Infrastructure	51,167,947	49,477,710
Buildings and improvements	1,368,580	692,010
Machinery and equipment	859,310	920,433
Total capital assets	\$ 54,229,081	\$ 52,483,930

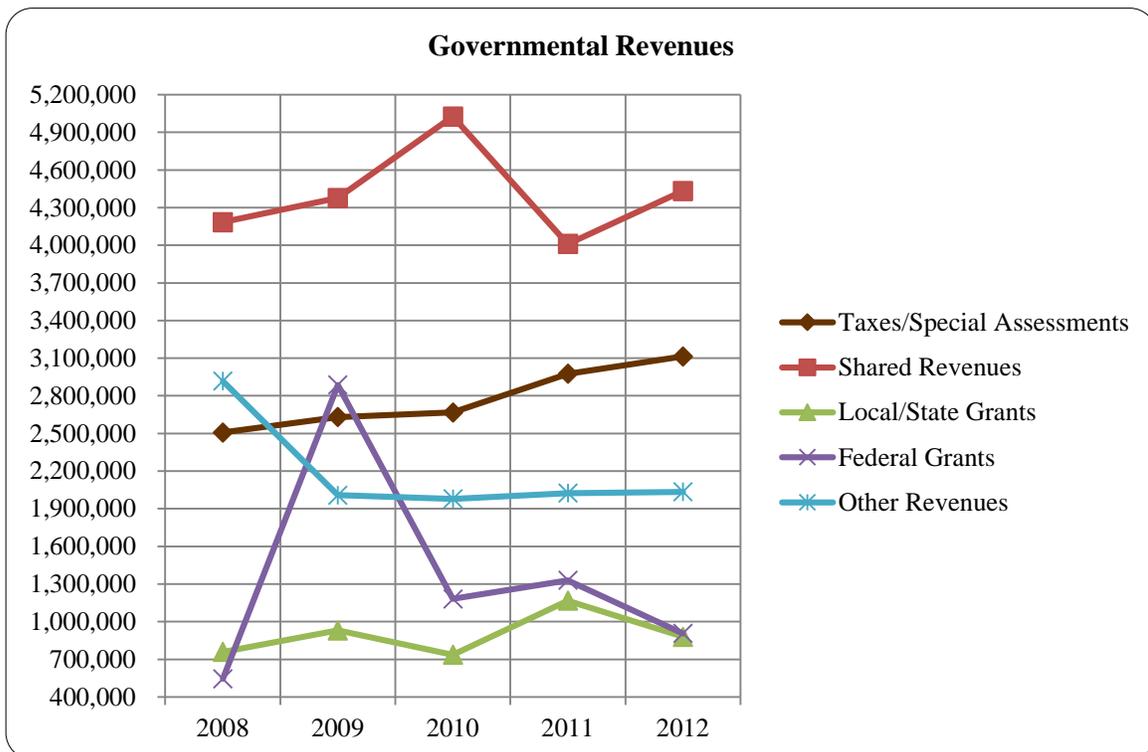
Additional information on the County’s capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, Kittson County had no long-term debt.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

- The County depends on financial resources flowing from, or associated with, both the Federal Government and the State of Minnesota. Because of this dependency, the County is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities. The five-year analysis below focuses on the revenues of the County’s governmental funds taken from Exhibit 5 and the Schedule of Intergovernmental Revenue.



- Kittson County's unemployment rate was 4.9 percent as of December, 2012. This is lower than the statewide rate of 5.4 percent and the national average rate of 7.6 percent.
- Standard & Poor's Ratings Services assigned its "AA-" long-term rating to Kittson County's \$945,000 General Obligation Water Revenue Crossover Refunding Bonds, Series 2011A for the discretely presented component unit, North Kittson Rural Water System. Standard & Poor's has also affirmed its "AAA" enhanced program rating.
- Kittson County's population at July 1, 2012 was 4,493, a decrease of 59 since 2010. This ranks Kittson County 84th of 87 in the State of Minnesota.
- On December 6, 2012, Kittson County set its 2013 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of Kittson County for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Kittson County Administrator, Kittson County Courthouse, 410 Fifth Street South, Suite 214, Hallock, MN 56728.

BASIC FINANCIAL STATEMENTS

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 7,449,263	\$ 226,873
Investments	140,000	-
Taxes receivable - prior	70,611	-
Special assessments receivable - prior	1,764	-
Accounts receivable	7,039	51,356
Accrued interest receivable	24,704	-
Due from other governments	253,457	496
Inventories	264,574	-
Restricted assets		
Cash and pooled investments	-	63,847
Cash with escrow agent	-	890,123
Investments	-	70,000
Special assessments receivable		
Current	-	4,237
Prior	-	16,559
Accrued interest receivable	-	2,037
Pooled investments for asset replacement	-	989,318
Surcharge receivable for debt repayment	-	6,380
Capital assets		
Non-depreciable	833,244	108,045
Depreciable - net of accumulated depreciation	53,395,837	10,076,903
Total Assets	\$ 62,440,493	\$ 12,506,174
<u>Deferred Outflows</u>		
Due from other governments	\$ -	\$ 592,000
Special assessments - noncurrent	-	757,738
County State Aid Highway Allotment	1,887,868	-
Total Deferred Outflows	\$ 1,887,868	\$ 1,349,738

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Liabilities</u>		
Accounts payable	\$ 241,070	\$ 10,258
Salaries payable	212,670	-
Accrued payroll taxes	-	5,359
Contracts payable	104,732	-
Due to other governments	34,420	1,708
Accrued interest payable	-	-
Advanced County State Aid Highway Allotment	567,015	-
Customer deposits	-	11,415
Payable from restricted assets		
General obligation bonds - current	-	1,025,000
Long-term liabilities		
Due within one year	158,962	6,885
Due in more than one year	488,435	1,045,091
	\$ 1,807,304	\$ 2,105,716
<u>Deferred Inflows</u>		
Taxes	\$ 40,382	\$ -
Due from other governments	-	592,000
Special assessments	-	774,297
County State Aid Highway Allotment	1,597,611	-
	\$ 1,637,993	\$ 1,366,297
<u>Net Position</u>		
Net investment in capital assets	\$ 54,229,081	\$ 9,161,210
Amounts restricted for		
General government	321,669	-
Public safety	429,872	-
Highways and streets	188,861	-
Conservation of natural resources	516,356	-
Equipment replacement	-	989,318
Debt service	-	133,847
Unrestricted amounts	5,197,225	99,524
	\$ 60,883,064	\$ 10,383,899

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Expenses</u>	<u>Fees, Charges, Fines and Other</u>	<u>Program Revenues Operating Grants and Contributions</u>
<u>Functions/Programs</u>			
Primary Government			
Governmental activities			
General government	\$ 2,362,117	\$ 737,485	\$ 3,698
Public safety	1,170,043	37,819	307,938
Highways and streets	4,383,748	680,417	1,625,462
Sanitation	88,480	28,891	196,950
Human services	1,812,465	308,976	615,978
Health	38,153	1,978	36,928
Culture and recreation	214,442	-	63,682
Conservation of natural resources	400,075	128,572	338,614
Economic development	81,167	2,400	36,131
Total Primary Government	<u>\$ 10,550,690</u>	<u>\$ 1,926,538</u>	<u>\$ 3,225,381</u>
Component Unit			
North Kittson Rural Water System	\$ 755,244	\$ 607,337	\$ -

General revenues

Property taxes
 Grants and contributions not restricted to specific programs
 Payments in lieu of taxes
 Insurance dividends
 Investment earnings
 Transfers

Total general revenues

Change

Net assets - January 1, as previously reported

Prior period adjustment

Net position - January 1, as restated

Net position - December 31

EXHIBIT 2

Net (Expense) Revenue and Changes in Net Position		
Capital Grants and Contributions	Primary Government Governmental Activities	Discretely Presented Component Unit
\$ -	\$ (1,620,934)	\$ -
-	(824,286)	-
2,595,128	517,259	-
-	137,361	-
-	(887,511)	-
-	753	-
-	(150,760)	-
-	67,111	-
-	(42,636)	-
\$ 2,595,128	\$ (2,803,643)	\$ -
\$ 174,359	\$ -	\$ 26,452
	\$ 3,016,297	\$ -
	244,731	1,006
	152,894	-
	102,003	-
	103,814	4,343
	(8,894)	8,894
	\$ 3,610,845	\$ 14,243
	\$ 807,202	\$ 40,695
	\$ 61,158,838	\$ 11,780,205
	(1,082,976)	(1,437,001)
	\$ 60,075,862	\$ 10,343,204
	\$ 60,883,064	\$ 10,383,899

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General Fund	Special Revenue Funds		Other Governmental Funds (Statement 1)	Total Governmental Funds
		Road and Bridge	Social Services		
<u>Assets and Deferred Outflows</u>					
Assets					
Cash and pooled investments	\$ 4,803,063	\$ 413,553	\$ 1,488,665	\$ 743,982	\$ 7,449,263
Investments	100,000	-	40,000	-	140,000
Taxes receivable - prior	49,558	8,009	12,631	413	70,611
Special assessments receivable - prior	-	-	-	1,764	1,764
Accounts receivable	533	4,554	1,952	-	7,039
Accrued interest receivable	24,693	-	11	-	24,704
Due from other funds	81	3,190	-	-	3,271
Due from other governments	63,144	112,500	56,972	20,841	253,457
Inventories	-	264,574	-	-	264,574
Advances to other funds	29,364	-	-	-	29,364
Total Assets	\$ 5,070,436	\$ 806,380	\$ 1,600,231	\$ 767,000	\$ 8,244,047
Deferred Outflows					
County State Aid Highway Allotment	-	1,887,868	-	-	1,887,868
Total Assets and Deferred Outflows	\$ 5,070,436	\$ 2,694,248	\$ 1,600,231	\$ 767,000	\$ 10,131,915
<u>Liabilities, Deferred Inflows and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 76,614	\$ 46,399	\$ 114,021	\$ 4,036	\$ 241,070
Salaries payable	116,905	62,255	33,510	-	212,670
Contracts payable	47,663	57,069	-	-	104,732
Due to other funds	-	-	81	3,190	3,271
Due to other governments	19,786	1,683	8,534	4,417	34,420
Advance from County State Aid Highway Allotment	-	567,015	-	-	567,015
Advances from other funds	-	-	-	29,364	29,364
Total Liabilities	\$ 260,968	\$ 734,421	\$ 156,146	\$ 41,007	\$ 1,192,542
Deferred Inflows					
Taxes	\$ 27,955	\$ 4,794	\$ 7,254	\$ 379	\$ 40,382
County State Aid Highway Allotment	-	1,597,611	-	-	1,597,611
Total Deferred Inflows	\$ 27,955	\$ 1,602,405	\$ 7,254	\$ 379	\$ 1,637,993

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General Fund	Special Revenue Funds		Other Governmental Funds (Statement 1)	Total Governmental Funds
		Road and Bridge	Social Services		
Fund Balances					
Non-spendable					
Advances to other funds	\$ 29,364	\$ -	\$ -	\$ -	\$ 29,364
Inventory	-	264,574	-	-	264,574
Restricted for					
Conservation of natural resources	-	-	-	497,098	497,098
Corrections supervision	4,761	-	-	-	4,761
County State Aid Highway Allotment	-	86,381	-	-	86,381
DWI assessment	4,895	-	-	-	4,895
Enhanced 911	413,611	-	-	-	413,611
Handgun permits	6,528	-	-	-	6,528
Help America Vote Act	131,764	-	-	-	131,764
Law library	3,469	-	-	-	3,469
Missing heirs	1,067	-	-	-	1,067
Pit restoration	-	102,480	-	-	102,480
Probation	1,640	-	-	-	1,640
Recorder's equipment	81,435	-	-	-	81,435
Sheriff's forfeited property	2,995	-	-	-	2,995
Sheriff's contingent fund	751	-	-	-	751
Technology	103,934	-	-	-	103,934
Water planning	19,258	-	-	-	19,258
Committed to					
Buildings	765,120	-	200,000	-	965,120
Capital purchases	150,000	-	30,000	-	180,000
Data processing	280,490	-	100,000	-	380,490
Enhanced 911 road signs	179,049	-	-	-	179,049
Geographic Information System	143,407	-	-	-	143,407
Insurance	600,000	-	-	-	600,000
Local Emergency Planning Commission	8,638	-	-	-	8,638
Assigned to					
Social services	-	-	1,106,831	-	1,106,831
Unorganized townships	-	-	-	248,245	248,245
Unassigned	1,849,337	(96,013)	-	(19,729)	1,733,595
Total Fund Balances	\$ 4,781,513	\$ 357,422	\$ 1,436,831	\$ 725,614	\$ 7,301,380
Total Liabilities, Deferred Inflows and Fund Balances	\$ 5,070,436	\$ 2,694,248	\$ 1,600,231	\$ 767,000	\$ 10,131,915

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Fund balances - total governmental funds (Exhibit 3)	\$ 7,301,380
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.	54,229,081
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences payable	\$ (398,555)
Other post-employment benefits	(248,842)
	<u>(647,397)</u>
Net position of governmental activities (Exhibit 1)	<u>\$ 60,883,064</u>

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General Fund	Special Revenue Funds		Other Government Funds (Statement 2)	Total Governmental Funds
		Road and Bridge	Social Services		
Revenues					
Taxes	\$ 2,132,588	\$ 327,149	\$ 521,808	\$ 51,034	\$ 3,032,579
Special assessments	-	-	-	81,186	81,186
Licenses and permits	5,115	-	-	-	5,115
Intergovernmental	1,087,471	4,155,137	653,624	321,902	6,218,134
Charges for services	211,801	516,816	102,534	35,001	866,152
Fines and forfeitures	3,950	-	-	-	3,950
Investment earnings	103,600	-	214	-	103,814
Land and timber sales	-	-	-	7,962	7,962
Miscellaneous	150,831	147,319	206,442	543,302	1,047,894
Total Revenues	\$ 3,695,356	\$ 5,146,421	\$ 1,484,622	\$ 1,040,387	\$ 11,366,786
Expenditures					
Current					
General government	\$ 1,653,011	\$ -	\$ -	\$ 544,750	\$ 2,197,761
Public safety	1,127,961	-	-	4,886	1,132,847
Highways and streets	-	4,982,364	-	51,378	5,033,742
Sanitation	70,859	-	-	-	70,859
Human services	-	-	1,810,039	-	1,810,039
Health	38,153	-	-	-	38,153
Culture and recreation	214,442	-	-	-	214,442
Conservation of natural resources	252,830	-	-	137,464	390,294
Economic development	81,167	-	-	-	81,167
Total Current	\$ 3,438,423	\$ 4,982,364	\$ 1,810,039	\$ 738,478	\$ 10,969,304
Debt Service					
Interest	\$ -	\$ -	\$ -	\$ 8,896	\$ 8,896
Capital Outlay					
General government	\$ 985,833	\$ -	\$ -	\$ -	\$ 985,833
Public safety	11,898	-	-	-	11,898
Highways and streets	-	249,573	-	-	249,573
Total Capital Outlay	\$ 997,731	\$ 249,573	\$ -	\$ -	\$ 1,247,304

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General Fund	Special Revenue Funds		Other Government Funds (Statement 2)	Total Governmental Funds
		Road and Bridge	Social Services		
Total Expenditures	\$ 4,436,154	\$ 5,231,937	\$ 1,810,039	\$ 747,374	\$ 12,225,504
Excess of Revenues Over (Under) Expenditures	\$ (740,798)	\$ (85,516)	\$ (325,417)	\$ 293,013	\$ (858,718)
Other Financing Sources (Uses)					
Transfers in	\$ -	\$ -	\$ -	\$ 1,448	\$ 1,448
Transfers out	(1,448)	-	-	(8,894)	(10,342)
Total Other Financing Sources (Uses)	\$ (1,448)	\$ -	\$ -	\$ (7,446)	\$ (8,894)
Net Change in Fund Balance	\$ (742,246)	\$ (85,516)	\$ (325,417)	\$ 285,567	\$ (867,612)
Fund Balance - January 1, as previously reported	\$ 5,523,759	\$ 502,089	\$ 1,762,248	\$ 440,047	\$ 8,228,143
Prior period adjustment	-	32,148	-	-	32,148
Fund Balance - January 1, as restated	\$ 5,523,759	\$ 534,237	\$ 1,762,248	\$ 440,047	\$ 8,260,291
Increase (decrease) in inventories	\$ -	\$ (91,299)	\$ -	\$ -	\$ (91,299)
Fund Balance - December 31	\$ 4,781,513	\$ 357,422	\$ 1,436,831	\$ 725,614	\$ 7,301,380

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ (867,612)**

Amounts reported for governmental activities in the
Statement of Activities are different because:

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.

Expenditures for general capital assets and infrastructure	\$	3,463,902	
Current year depreciation		<u>(1,718,751)</u>	1,745,151

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 payable	\$	(20,890)	
Other post employment benefits		41,852	
Inventories		<u>(91,299)</u>	<u>(70,337)</u>

Change in net position of governmental activities (Exhibit 2) **\$ 807,202**

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012**

	Mar-Kit Landfill Investment Trust	Agency (Statement 3)
<u>Assets</u>		
Cash and pooled investments	\$ -	\$ 2,309,876
Investments	800,000	-
Accrued interest receivable	452	-
	\$ 800,452	\$ 2,309,876
<u>Liabilities</u>		
Accounts payable	\$ -	\$ 138,106
Accrued interest payable	452	-
Due to other governments	-	2,171,770
	\$ 452	\$ 2,309,876
<u>Net Position</u>		
Amounts held in trust for pool participants	\$ 800,000	

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
MAR-KIT LANDFILL INVESTMENT TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

<u>Additions</u>	
Investment earnings	\$ 4,191
<u>Deductions</u>	
Distributions to participants	4,191
Change in net position	\$ -
Net Position--January 1	800,000
Net Position--December 31	\$ 800,000

**KITTSON COUNTY
HALLOCK, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

I. 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). 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

Kittson County was established March 9, 1878, and is an organized county having the powers, duties, and privileges granted counties by Minnesota Statutes, Chapter 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Kittson 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. The County Auditor/Treasurer, elected on a County-wide basis, serves as the clerk of the Board but has no vote.

Discretely Presented Component Unit

The North Kittson Rural Water System Component Unit is reported in a separate column in the County's basic financial statements to emphasize that the North Kittson Rural Water System is legally separate from Kittson County. The Board of Directors operates the Water System in a portion of Kittson County and consists of seven members appointed by the Kittson County Board of Commissioners for four-year terms. The Board is responsible for providing water for participating rural users and cities within the water district as provided in Minnesota Statutes, Chapter 116A. Kittson County levies assessments to retire general obligation debt issued by the County to construct the water system.

Complete financial statements of the North Kittson Rural Water System can be obtained from the Kittson County Auditor's Office or the administrative offices of the Rural Water System in Lake Bronson, Minnesota 56734.

Joint Ventures

The County participates in several joint ventures, related organizations, and jointly-governed organizations which are described in Notes section VI, subdivisions D, E, and F, respectively.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., 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 the fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities.

In the government-wide statement of net position, the governmental activities column: (a) is presented on a consolidated basis; and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets, receivables, and deferred outflows of resources as well as long-term debt, obligations, and deferred inflows of resources. 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 that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, charges, and fines paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues and transfers.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds. 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 separate columns in the fund financial statements. All remaining governmental 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 and reports all financial resources of the general government not accounted for in another fund.

The Road and Bridge Special Revenue Fund is used to account for and report revenues and expenditures of the County Highway Department which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways. Financing is provided by annual tax levy, intergovernmental revenues, and charges for services restricted for various highways and streets purposes.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Social Services Special Revenue Fund is used to account for and report financial services provided to persons receiving public assistance. Financing is provided by annual tax levy and intergovernmental revenues committed and assigned to various social services purposes.

Additionally, the County reports the following fund types:

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Investment Trust Funds account for the external pooled and non-pooled investments held on behalf of external participants.

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 agency capacity.

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. The County considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for compensated absences and claims and judgments, which are recognized as expenditures to the extent that they have matured.

As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2012, based on market prices. Pursuant to Minnesota Statute, § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2012 were \$101,008. Total investment earnings for 2012 were \$103,814.

2. Receivables and Payables

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 on May 15 and the second half due on October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as prior taxes receivable.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances from/to other funds" (i.e., 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 a fund balance account in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables, including those of the discretely presented component unit, are shown net of an allowance for uncollectible amounts, if applicable.

3. Inventories

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.

Inventories, as reported in the fund financial statements, are offset by a fund balance account to indicate that they do not constitute available spendable resources.

4. Restricted Assets

Certain funds of the County are classified as restricted on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

5. Capital Assets

Capital assets, which include land, construction in progress, infrastructure (e.g., roads, bridges, and similar items), buildings and improvements, and machinery and equipment, are reported in the applicable government-wide financial statements. Capital assets have initial useful lives extending beyond two years and a dollar amount for capitalization per asset of \$5,000, except all land and construction in progress which is capitalized regardless of cost. Capital assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Infrastructure, buildings and improvements, and machinery and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	50-75
Buildings and improvements	5-30
Machinery and equipment	5-10

6. Deferred Outflows and Inflows

Deferred outflows of resources are a consumption of net assets by the County that is applicable to a future reporting period and has a positive effect on net position, similar to assets. Deferred inflows of resources are an acquisition of net assets by the County that is applicable to a future reporting period and has a negative effect on net position, similar to liabilities.

7. Employee Benefits

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such 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 County uses the alternative method of valuation to determine its Other Post-Employment Benefit liability.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

8. Net Position and Fund Balance

Certain funds of the County are classified as restricted net position on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

In the fund financial statements, the County classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent because it is either not in spendable form or legally or contractually required to be maintained intact.

Restricted – includes fund balance amounts that are constrained for specific purposes which are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes imposed by resolution of the County Board and do not lapse at year-end. To remove the constraint on specified use of committed resources the County Board shall pass a resolution.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither restricted nor committed. The County Board has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the County Auditor.

Unassigned – includes positive fund balance within the General Fund, which has not been classified within the above mentioned categories, and negative fund balances in other governmental funds.

The County will maintain an unrestricted fund balance in the General Fund of an amount not less than 35 to 50 percent of next year's budgeted expenditures of the General Fund. Unrestricted fund balance can be "spent down" if there is an anticipated budget shortfall in excess of zero dollars. If spending unrestricted fund balance in designated circumstances has reduced unrestricted fund balance to a point below the minimum targeted level, as noted above, the replenishment will be funded by property taxes and transfers from other funds within three years.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

8. Net Position and Fund Balance (Continued)

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The County Board will set aside amounts by resolution as deemed necessary that can only be expended when major flood repairs exist as the need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the County's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

9. 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, liabilities, and deferred inflows, and disclosure of contingent amounts 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.

10. Account Balance Reclassifications

Several account balances were reclassified for the year ended December 31, 2011, as previously reported. These reclassifications, due to the implementation of GASB Statements 63 and 65, were required in order to be consistent with the current year's presentation, and must be considered when comparing the financial statements of this report with those of prior reports.

11. Comparative Data

Comparative data has not been provided due to the implementation of GASB 63 and 65, however, comparative information may be provided in future years when prior year information is available.

II. Change in Accounting Principles

Effective January 1, 2012, the County implemented GASB Statements 63 and 65, which required a change in accounting principles and resulted in adjustments to beginning net position. The following table outlines the changes in net position as reported on the County's financial statements:

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

II. Change in Accounting Principles (Continued)

	Primary Government		Discretely Presented Component Unit
	Governmental Activities	Road and Bridge Special Revenue Fund	
Net assets, December 31, 2011, as previously reported	\$ 61,158,838	\$ 502,089	\$ 11,780,205
Prior period adjustments			
Expense out bond issuance costs	-	-	(25,037)
Taxes	(36,027)	-	-
Due from other governments	-	-	(639,000)
Special assessments	(158)	-	(772,964)
County State Aid Highway Allotment	(595,225)	32,148	-
Public assistance	(451,566)	-	-
Net position, January 1, 2012, as restated	<u>\$ 60,075,862</u>	<u>\$ 534,237</u>	<u>\$ 10,343,204</u>

III. Stewardship, Compliance, and Accountability

A. Individual Fund Deficits of Equity Accounts

Ditch Special Revenue Fund

Three of the 36 active ditch systems incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following shows the restricted fund balances as of December 31, 2012:

Account balance	\$ 505,302
Account deficit	<u>(8,204)</u>
Fund Balance	<u>\$ 497,098</u>

Forfeited Tax Sale Special Revenue Fund

At December 31, 2012, the Forfeited Tax Sale Special Revenue Fund had a deficit unassigned fund balance of \$(19,729). This deficit will be eliminated with future forfeited land proceeds.

Road and Bridge Special Revenue Fund

At December 31, 2012, the Road and Bridge Special Revenue Fund had a deficit unassigned fund balance of \$(96,013), with a total fund balance of \$357,422. This deficit will be eliminated with future levies.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Stewardship, Compliance, and Accountability (Continued)

B. Land Management

The County manages approximately 376 acres of state-owned tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

IV. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliations of the County's total deposits and investments to the basic financial statements, as of December 31, 2012, are reported as follows:

	Primary Government	Discretely Presented Component Unit
Government-wide statement of net position		
Cash and pooled investments	\$ 7,449,263	\$ 226,873
Investments	140,000	-
Restricted		
Cash and pooled investments	-	63,847
Cash with escrow agent	-	890,123
Investments	-	70,000
Pooled investments reserved for asset replacement	-	989,318
Statement of fiduciary net position		
Cash and pooled investments	2,309,876	-
Investments	800,000	-
Total cash and investments	\$ 10,699,139	\$ 2,240,161
Deposits	\$ 2,889,403	\$ 2,240,161
Cash on hand	1,800	-
Investments	7,807,936	-
Total deposits, cash on hand, and investments	\$ 10,699,139	\$ 2,240,161

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Deposits

Minnesota Statutes, §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board. Minnesota Statute, § 118A.03 requires that all County deposits be covered by 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, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2012, the County's deposits were not exposed to custodial credit risk. As of December 31, 2012, the discretely presented component unit's deposits were not exposed to custodial credit risk.

Investments

Minnesota Statutes, §§ 118A.04 and 118A.05 generally authorize the following types of investments available to the County:

- (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 Minnesota Statute, § 118A.04, subdivision 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 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;

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments (Continued)

- (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. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

At December 31, 2012, the County had the following investments and maturities:

	Fair Value	Less Than 1 Year	1-5 Years	5+ Years
Federal Home Loan Bank	\$ 3,169,395	\$ 840,134	\$ -	\$ 2,329,261
Federal Home Loan Mortgage Corporation	700,848	-	-	700,848
Negotiable Certificates of Deposit	2,508,117	1,102,825	1,256,389	148,903
Money Market	1,336,437	1,336,437	-	-
Tennessee Valley Authority Power Bonds	93,139	-	-	93,139
Total Investments	<u>\$ 7,807,936</u>	<u>\$ 3,279,396</u>	<u>\$ 1,256,389</u>	<u>\$ 3,272,151</u>
	100%	42%	16%	42%

Credit Risk

Generally, a 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 to invest only in securities that meet the ratings requirements set by state statute.

The County's exposure to credit risk as of December 31, 2012, is as follows:

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments

Credit Risk (Continued)

	<u>Moody's Rating</u>	<u>Fair Value</u>
Federal Home Loan Bank	AAA	\$ 2,515,652
Federal Home Loan Bank	AA	653,743
Federal Home Loan Mortgage Corporation	AAA	700,848
Negotiable Certificates of Deposit	N/A	2,508,117
Money Market	N/A	1,336,437
Tennessee Valley Authority Power Bonds	N/R	93,139
		\$ 7,807,936

N/R – not rated

N/A – not applicable

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 does not have a policy on custodial credit risk. Some brokers have excess SIPC coverage which may mitigate all or part of custodial credit risk. At December 31, 2012, the following investments may be subject to custodial credit risk:

Federal Home Loan Bank	\$ 2,759,938
Federal Home Loan Mortgage Corporation	610,305
Money Market	836,437
	\$ 4,206,680

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer, excluding U.S. guaranteed investments, investment pools, and mutual funds. The County's negotiable certificates of deposit are with 18 separate financial institutions and are not exposed to concentration of credit risk.

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

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments

Concentration of Credit Risk (Continued)

Issuer	Reported Amount	
Federal Home Loan Bank	\$ 3,169,395	41%
Federal Home Loan Mortgage Corporation	700,848	9%

2. Receivables

Receivables as of December 31, 2012, for the County's governmental activities, including any applicable allowances for uncollectible accounts, are as follows:

	Total Receivables
Taxes	\$ 70,611
Special assessments	1,764
Accounts	7,039
Accrued interest	24,704
Due from other governments	253,457
Total	\$ 357,575

All receivable amounts are scheduled for collection during the subsequent year.

Receivables as of December 31, 2012, for the discretely presented component unit, including any applicable allowances for uncollectible accounts, are as follows:

	Total Receivables
Accounts	\$ 51,356
Due from other governments	496
Restricted	
Accrued interest	2,037
Special assessments	20,796
Due from other governments	
Surcharge - reserved for debt repayment	6,380
Total	\$ 81,065

All receivable amounts are scheduled for collection during the subsequent year.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the primary government for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 190,821	\$ -	\$ -	\$ 190,821
Construction in progress	1,202,956	2,100,799	2,661,332	642,423
Total capital assets not depreciated	\$ 1,393,777	\$ 2,100,799	\$ 2,661,332	\$ 833,244
Capital assets being depreciated				
Infrastructure	\$ 66,236,686	\$ 3,001,082	\$ -	\$ 69,237,768
Buildings and improvements	2,548,767	750,224	-	3,298,991
Machinery and equipment	4,326,300	273,129	191,959	4,407,470
Total capital assets being depreciated	\$ 73,111,753	\$ 4,024,435	\$ 191,959	\$ 76,944,229
Less: accumulated depreciation for				
Infrastructure	\$ 16,758,976	\$ 1,310,845	\$ -	\$ 18,069,821
Buildings and improvements	1,856,757	73,654	-	1,930,411
Machinery and equipment	3,405,867	334,252	191,959	3,548,160
Total accumulated depreciation	\$ 22,021,600	\$ 1,718,751	\$ 191,959	\$ 23,548,392
Total capital assets, depreciated, net	\$ 51,090,153	\$ 2,305,684	\$ -	\$ 53,395,837
Primary Government Capital Assets, Net	\$ 52,483,930	\$ 4,406,483	\$ 2,661,332	\$ 54,229,081

Depreciation expense was charged to functions/programs of the primary government as follows:

General government	\$ 72,080
Public safety	72,931
Highways and streets, including depreciation of infrastructure assets	1,561,331
Sanitation	761
Human services	11,648
Total Depreciation Expense	\$ 1,718,751

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Capital asset activity for the discretely presented component unit for the year ended December 31, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 108,045	\$ -	\$ -	\$ 108,045
Capital assets being depreciated				
Distribution system	\$ 10,023,142	\$ -	\$ -	\$ 10,023,142
Buildings and pumps	4,175,918	70,156	-	4,246,074
Machinery and equipment	192,497	33,653		226,150
Tower reconditioning	249,048	55,642		304,690
Total capital assets being depreciated	\$ 14,640,605	\$ 159,451	\$ -	\$ 14,800,056
Less: accumulated depreciation for				
Distribution system	\$ 2,648,639	\$ 116,371	\$ -	\$ 2,765,010
Buildings and pumps	1,641,980	101,156	-	1,743,136
Machinery and equipment	122,869	12,194		135,063
Tower reconditioning	65,373	14,571		79,944
Total accumulated depreciation	\$ 4,478,861	\$ 244,292	\$ -	\$ 4,723,153
Total capital assets, depreciated, net	\$ 10,161,744	\$ (84,841)	\$ -	\$ 10,076,903
Component Unit				
Capital Assets, Net	\$ 10,269,789	\$ (84,841)	\$ -	\$ 10,184,948

\$244,292 of depreciation expense was charged to the functions of the Rural Water System.

Construction Contracts

The County has active construction contracts as of December 31, 2012. The contracts include the following:

	Spent-to-Date	Remaining Contracts
Governmental activities		
Highways and streets	\$ 140,400	\$ 1,245,305

Construction contracts are being financed by County taxes and intergovernmental revenue from local, state, and federal agencies.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

IV. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2012, is as follows:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
General Fund	Social Services Special Revenue Fund	\$ 81	Charges for services
Road and Bridge Special Revenue Fund	Other Governmental	<u>3,190</u>	Charges for services
Total Due To/From Other Funds		<u><u>\$ 3,271</u></u>	

Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
General Fund	Other Governmental	<u>\$ 29,364</u>	Cash flows

These advances will be paid back as funds become available.

Interfund Transfers

Interfund transfers for the year ended December 31, 2012, consisted of the following operating transfers:

Transfer to Other Governmental from General Fund	\$ 1,448	Operations
Transfer to discretely presented component unit from Other Governmental	<u>8,894</u>	To close fund
Total Interfund Transfers	<u><u>\$ 10,342</u></u>	

C. Liabilities

Compensated Absences

Under the County's personnel policies and union contracts, employees are granted vacation in varying amounts based on their length of service. Vacation leave accrual varies from 12 to 27 days per year. Sick leave accrual is 12 days per year. Leave may be accumulated to a maximum of 30 days vacation and 150 days sick leave under the County's employment policy. For the governmental activities, compensated absences are generally liquidated by the General Fund, the Road and Bridge Special Revenue Fund, and the Social Services Special Revenue Fund.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

IV. Detailed Notes on All Funds

C. Liabilities

Compensated Absences (Continued)

Unused compensatory time, accumulated vacation and vested sick leave are paid to employees upon termination. Unvested sick leave, approximately \$352,701 at December 31, 2012, is available to employees in the event of illness-related absences and is not paid to them at termination.

Changes in Long-Term Liabilities

Long-term liability for activity for the governmental activities for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Net OPEB Payable	\$ 290,694	\$ (35,201)	\$ 6,651	\$ 248,842	\$ -
Compensated Absences	377,665	266,962	246,072	398,555	158,962
Long-Term Liabilities	<u>\$ 668,359</u>	<u>\$ 231,761</u>	<u>\$ 252,723</u>	<u>\$ 647,397</u>	<u>\$ 158,962</u>

Long-Term Debt – Discretely Presented Component Unit

General obligation debt payable from the North Kittson Rural Water System Component Unit comprises the following individual issues:

\$945,000 General Obligation Water Revenue Crossover Refunding Bonds, Series 2011A represent debt incurred in 2011 to refund the General Obligation Rural Water System Revenue Refunding Bonds of 2004 on the January 1, 2013 crossover date.

The proceeds from the refunding were deposited into an escrow account maintained by Northland Trust Services, Inc. All bond proceeds deposited in the escrow account shall be used to pay issuance costs and to purchase securities bearing interest at such rates as to provide sufficient funds to pay the interest coming due on the General Obligation Water Revenue Crossover Refunding Bonds, Series 2011A through and including January 1, 2013, and to repay the \$945,000 called principal amount of the General Obligation Water System Revenue Refunding Bonds of 2004.

The Water System will continue to pay the scheduled principal and interest payments on the General Obligation Rural Water System Refunding Bonds of 2004, including the payment due on the crossover date of January 1, 2013. On the crossover date, the \$945,000 refunded principal of the Rural Water System Revenue Refunding Bonds of 2004 will be paid in full by the escrow agent. The Water System will then be responsible for all debt service payments on the General Obligation Water Revenue Crossover Refunding Bonds, Series 2011A commencing with the July 1, 2013 interest payment.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

IV. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt – Discretely Presented Component Unit (Continued)

The Water System will reduce its total debt service payments by \$50,013 and realize an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$42,195. The new bonds were issued with a discount of \$5,658 and net issuance costs of \$14,700. This debt is reported net of unamortized bond discount of \$5,144. \$ 939,856

\$425,000 General Obligation Refunding Bonds of 2009 – dated July 1, 2009 due in installments of \$50,000 to \$65,000 through 2016, with net interest rate of 2.666 percent. This debt is to refund general obligation refunding bonds dated September 1, 1998 which were scheduled to mature January 1, 2017. The new bonds were issued with a discount of \$7,841 and net issuance costs of \$6,230. As a result of the advanced refunding, the Water System realized an economic gain of \$24,268 with a present value of \$25,986. This debt is reported net of unamortized bond discount of \$4,481. 220,519

\$1,475,000 General Obligation Refunding Bonds of 2004 – dated April 28, 2004, with the balance due in 2013 of \$890,000 and net interest rate of 4.387 percent. This debt is to refund general obligation bonds dated March 1994 which were scheduled to mature January 1, 2023. The new bonds were issued with a discount of \$14,750 and net issuance costs of \$8,848. As a result of the advanced refunding, the Water System realized an economic gain of \$322,431 with a present value of \$74,392. This debt is reported net of unamortized bond discount of \$2,667. 887,333

Total Payable from North Kittson Rural Water System Component Unit \$ 2,047,708

Debt Service Requirements

The future payments on the debt of the discretely presented component unit are as follows:

Year Ending December 31	General Obligation Water System Revenue Crossover Refunding Bonds, Series 2011A		General Obligation Refunding Bonds of 2009		General Obligation Refunding Bonds of 2004	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 85,000	\$ 23,959	\$ 50,000	\$ 6,510	\$ 890,000	\$ 249,603
2014	85,000	22,257	55,000	5,210	-	-
2015	90,000	20,557	55,000	3,780	-	-
2016	90,000	18,533	65,000	2,047	-	-
2017	95,000	16,507	-	-	-	-
2018-2022	500,000	44,612	-	-	-	-
	<u>\$ 945,000</u>	<u>\$ 146,425</u>	<u>\$ 225,000</u>	<u>\$ 17,547</u>	<u>\$ 890,000</u>	<u>\$ 249,603</u>
Less: Bond discount	(5,144)	-	(4,481)	-	(2,667)	-
Total	<u>\$ 939,856</u>	<u>\$ 146,425</u>	<u>\$ 220,519</u>	<u>\$ 17,547</u>	<u>\$ 887,333</u>	<u>\$ 249,603</u>

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

IV. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt – Discretely Presented Component Unit (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the discretely presented component unit for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Refunding Bonds	\$ 1,240,000	\$ -	\$ 125,000	\$ 1,115,000	\$ 940,000
G.O. Water Revenue Crossover Refunding Bonds, Series 2011A	945,000	-	-	945,000	85,000
Less: Bond discounts	(14,192)	-	(1,900)	(12,292)	-
Compensated Absences	35,300	13,568	19,600	29,268	6,885
Long-Term Liabilities	<u>\$ 2,206,108</u>	<u>\$ 13,568</u>	<u>\$ 142,700</u>	<u>\$ 2,076,976</u>	<u>\$ 1,031,885</u>

V. Pension Plans and Other Post-Employment Benefits

Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of the County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, the Public Employee's Police and Fire Fund, and the Public Employees Correctional Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates, are covered by the Public Employees Correctional Fund.

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

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits

Defined Benefit Plans

Plan Description (Continued)

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3 percent for each year of service. For Public Employees Correctional Fund Members, the annuity accrual rate is 1.9 percent for each year of service.

For all Public Employees Retirement Fund members whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2012. Public Employees Police and Fire Fund members were required to contribute 9.60 percent of their annual covered salary in 2012. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits

Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2012 and 2013:

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

The County's contributions for the years ending December 31, 2012, 2011, and 2010, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2012	\$ 147,215	\$ 54,981	\$ 12,006
2011	142,699	57,249	19,826
2010	135,569	56,209	19,427

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

Defined Contribution Plan

Six employees of Kittson County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA in accordance with Minnesota Statute, Chapter 353D. 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. Minnesota Statute, § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits

Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2012, were:

	Employee	Employer
Contribution amount	\$ 6,815	\$ 6,815
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

Other Post-Employment Benefits (OPEB)

Plan Description

Kittson County provides a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides for retirees as required by Minnesota Statute § 471.61, subdivision 2b. The retiree healthcare plan does not issue a publicly available financial report.

Funding Policy

The contribution requirements of the plan and the County are established and may be amended by the Kittson County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This post-employment benefit is funded on a pay-as-you-go basis usually paying retiree benefits out of the General Fund. For 2012, there were approximately 66 participants in the plan, including five retirees.

Annual OPEB Cost and Net OPEB Obligation

The County's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (ARC). The County has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the retiree health plan.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

Annual Required Contribution	\$	(28,351)
Interest on net OPEB obligation		4,331
Adjustments to Annual Required Contribution		<u>(11,181)</u>
Annual OPEB cost (credit)	\$	(35,201)
Contributions made		<u>(6,651)</u>
Increase in net OPEB obligation	\$	(41,852)
Net OPEB Obligation - January 1, 2012		<u>290,694</u>
Net OPEB Obligation - December 31, 2012	\$	<u><u>248,842</u></u>

The County's annual OPEB credit for December 31, 2012, was \$35,201. Contributions to the plan were \$6,651 and the net OPEB obligation for 2012 was \$248,842. For the required three-year trend information, refer to the Required Supplementary Information beginning on page 66 of this report.

Fund Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan was zero percent funded. There was no actuarial liability for benefits in 2012 and the actuarial value of assets was zero. The covered payroll (annual payroll of active employees covered by the plan) was \$2,806,435.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

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

**KITTSON COUNTY
HALLOCK, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits (OPEB)

Methods and Assumptions (Continued)

The following simplifying assumptions were made:

Retirement age for active employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62 and law enforcement personnel were assumed to retire at age 55, or at the first subsequent year in which the member would qualify for benefits.

Marital status – Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality – Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2004 United States Life Tables for Males and for Females were used.

Turnover – Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the represent value of total benefits to be paid.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare and Medicaid Services. A rate of 5.4 percent initially, increased to a rate of 7.2 percent after six years, was used.

Health insurance premiums – 2012 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits paid.

Inflation rate – The actuarial assumptions include a 1.49 percent investment rate of return (net of investment expense), which is Kittson County's implicit rate of return on the General Fund.

Payroll growth rate – The expected long-term payroll growth rate was based on the County's projected payroll growth rate.

Based on the historical and expected returns of the County's short-term investment portfolio, a discount rate of 1.49 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2012, was twenty-five years.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

A. Special Assessment Debt with Government Commitment

On April 28, 2004, the County issued \$1,475,000 General Obligation Rural Water System Revenue Refunding Bonds for the North Kittson Rural Water System, the discretely presented component unit. These bonds have a balance of \$890,000 and are due in full in 2013, with a net interest rate of 4.387 percent. As of December 31, 2012, the outstanding balance of this debt is \$887,333, net of bond discount, for which the Water System has a commitment of \$597,573 from Marshall County and the cities of Kennedy and Stephen.

These bonds will be refunded with the \$945,000 General Obligation Water Revenue Crossover Refunding Bonds, Series 2011A on the crossover date of January 1, 2013. As of December 31, 2012, the outstanding balance of the \$945,000 General Obligation Water Revenue Crossover Refunding Bonds, Series 2011A is \$939,856, net of bond discount, for which the Water System has a commitment of \$628,000 from Marshall County and the cities of Kennedy and Stephen.

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

The County, in connection with the normal conduct of its affairs, may be involved in various claims, judgments, and litigation. The County Attorney estimates that the potential claims against the County not covered by insurance resulting from such litigation would not materially affect the financial statements of the County.

C. 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. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT) to cover workers' compensation and property and casualty liabilities. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

The Worker's 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 \$460,000 per claim in 2012 and \$470,000 per claim in 2013. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

C. Risk Management (Continued)

The Property and Casualty Division of MCIT is self-sustaining and the County pays an annual premium to cover current and future losses. The 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.

D. Joint Ventures

Homeland Security Emergency Management (HSEM) Region 3 Emergency Managers Joint Powers Board

The HSEM Region 3 Emergency Managers Joint Powers Board was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minnesota Statutes, § 471.59 and Minnesota Statutes, Chapter 12. Members include Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomon, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau counties. The purpose of the HSEM Region 3 Emergency Managers Joint Powers Board is to engage in planning, training, and/or the purchase of equipment in order to better respond to emergencies and natural and other disasters within HSEM Region 3; specifically within the jurisdictional boundaries of the member counties.

Control is vested in the HSEM Region 3 Emergency Managers Joint Powers Board, which is composed of one representative from each member county, appointed by their respective governing bodies as provided in the HSEM Region 3 Emergency Managers Board's Joint Powers Agreement.

The HSEM Region 3 Emergency Managers Joint Powers Board has no long-term debt. Financing will be provided by a Homeland Security Grant Program and other grant programs and awards. Complete financial information can be obtained from the Clay County Sheriff's Office, 915 9th Avenue North, Moorhead, Minnesota 56560.

Karlstad Mobile Relay Station

The Karlstad Mobile Relay Station was formed in 1973 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Kittson, Lake of the Woods, Marshall, and Roseau Counties. The purpose of the Relay Station is to provide access to radio communications equipment for member counties.

Control of the Karlstad Mobile Relay Station is vested in an advisory board which is composed of one representative appointed by each county board and the Kittson County Auditor or Deputy Auditor. In the event of dissolution of the Relay Station, the net assets at the time shall be distributed to the respective member counties in proportion to the contributions made by each.

The Karlstad Mobile Relay Station has no long-term debt. Financing is provided by contributions from each member county representing an equal share of annual expense. Kittson County did not contribute to the Karlstad Mobile Relay Station for the year ended December 31, 2012. Complete financial information can be obtained from the Kittson County Auditor/Treasurer's Office, P.O. Box 848, Hallock, Minnesota 56728.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Kittson-Marshall Rural Water System

The Kittson-Marshall Rural Water System was established pursuant to Minnesota Statutes, Chapter 116A, under the jurisdiction of the District Court. Kittson and Marshall Counties have agreed to guarantee their shares of the debt arising within each respective County. The Kittson-Marshall Rural Water System provides water for participating rural users and the City of Donaldson within the water district.

The Kittson-Marshall Rural Water System is governed by a seven-member board appointed by the county boards of Kittson and Marshall Counties under an order of the District Court.

Kittson County has issued General Obligation Refunding Bonds of 2001 to refinance the County's share of debt associated with the General Obligation Refunding Bonds of 1993. On behalf of Marshall County, Kittson County also issued \$142,460 of General Obligation Rural Water System Revenue Bonds of 1994. Complete financial statements of the Kittson-Marshall Rural Water System can be obtained from its administrative offices in Donaldson, Minnesota 56720.

Mar-Kit Landfill

The Mar-Kit Landfill was established in 1991 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Kittson and Marshall Counties. The purpose of the Landfill is to allow for the purchase, lease, development, operation, and/or management of a sanitary landfill and/or processing facility to provide for the disposition of solid waste materials. The facility is located in Hallock, Minnesota, with administrative duties performed by the Kittson County Auditor/Treasurer's Office.

Control of the Landfill is vested in the Mar-Kit Landfill Joint Powers Board, which is composed of three county commissioners from each county. Serving as non-voting members are the solid waste officers and a lay person from each county, as provided in the Landfill's bylaws. In the event of dissolution of the joint powers board, the net assets of the Landfill at that time shall be divided amount the two counties by a percentage of population and contributions that, per county, generated the assets. Should a loss situation occur, the expenses shall be shared in the same proportion.

Mar-Kit Landfill's long-term debt was paid off in 2011. Financing is provided by charges for services and appropriations from member counties. Kittson County, in an agent capacity, reports the cash transactions of the Landfill as an agency fund on its financial statements. Complete financial information can be obtained from the Kittson County Auditor/Treasurer's Office, P.O. Box 848, Hallock, Minnesota 56728.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Northwest Minnesota Regional Radio Board

The Northwest Minnesota Regional Radio Board was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minnesota Statutes, §§ 403.39 and 471.59. Members include Becker, Beltrami, Clearwater, Clay, Hubbard, Kittson, Lake of the Woods, Mahnomon, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau counties and the City of Moorhead. The purpose of the Northwest Minnesota Regional Radio Board is to provide regional administration for the installation, operation, and maintenance of local and regional enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

Control is vested in the Northwest Minnesota Regional Radio Board, which is composed of one county commissioner from each member county and one city council member from the member city, appointed by their respective governing bodies as provided in the Northwest Minnesota Regional Radio Board's Joint Powers Agreement.

The Northwest Minnesota Regional Radio Board has no long-term debt. Financing is provided by annual contributions from members, reflective of the extent of participation and use of services. Kittson County did not contribute to the Northwest Regional Radio Board for the year ended December 31, 2012. Complete financial information can be obtained from Headwaters Regional Development Commission, P.O. Box 906, Bemidji, Minnesota 56619.

Northwest Service Cooperative

The Northwest Service Cooperative (NWSC) was established in February, 1977, pursuant to Minnesota Statutes, §§ 471.59 and 123.582. The NWSC is located in State Development Regions One and Two which includes 12 counties covering a total of 14,853 miles. These are the most sparsely populated regions of the state with only 11 persons per square mile. The regions are known as "Pine to Prairie." The NWSC provides service to all school districts, and many cities, counties, and other governmental agencies in the northwest region. The Northwest Service Cooperative's purpose is to meet or exceed the needs of participating members by developing and delivering high quality, cost-effective services and programs that will support the activities of its members.

The NWSC is governed by a Board of Directors consisting of school board members elected at large by their peers, one city representative, with a maximum of three at-large appointees and three ex-officio superintendents.

Complete financial information can be obtained from the Northwest Service Cooperative, 114 First Street West, Thief River Falls, Minnesota 56701.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Northwestern Counties Data Processing Security Association

The Northwestern Counties Data Processing Security Association was formed in 1994 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnommen, Marshall, Pennington, Polk, Roseau, and Wadena Counties. The purpose of the Association is to provide a mechanism whereby the counties may cooperatively provide for a data processing disaster recovery plan and back-up system.

Control of the Association is vested in the Northwestern Counties Data Processing Security Association Joint Powers Board, which is composed of one county commissioner appointed by each member county board. In the event of dissolution, the net assets of the Association shall be distributed to the respective member counties in proportion to the contribution of each.

The Northwestern Counties Data Processing Security Association has no long-term debt. Financing is provided by state grants and appropriations from member counties when needed. Kittson County did not contribute to the Association for the year ended December 31, 2012. Lake of the Woods County, in an agent capacity, reports the cash transactions of the Association as an agency fund on its financial statements. Complete financial information can be obtained from the Lake of the Woods County Auditor's Office, 206 8th Avenue SE, Suite 260, Baudette, MN 56623.

Northwestern Minnesota Household Hazardous Waste Management Group

The Northwestern Minnesota Household Hazardous Waste Management Group was formed in 1992 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Beltrami, Clearwater, Kittson, Lake of the Woods, Marshall, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Waste Management Group is to cooperatively manage, handle, and transport household hazardous waste, provide public education on safe waste management, and provide for the disposition of non-recyclable household hazardous waste materials.

Control of the Waste Management Group is vested in the Northwestern Minnesota Household Hazardous Waste Management Group Joint Powers Board, which is composed of one county commissioner from each of the member counties, as provided in the Waste Management Group's bylaws. Responsibility for budgeted expenditures is shared with the first 50 percent divided equally among the member counties and the remaining 50 percent divided on a population-ratio basis. In the event of dissolution of the joint powers board, the net assets of the Waste Management Group at that time shall be divided among the member counties in the same proportion as their respective financial responsibilities.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northwestern Minnesota Household Hazardous Waste Management Group (Continued)

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Kittson County contributed \$4,466 to the Waste Management Group for the year ended December 31, 2012. Clearwater County, in an agent capacity, reports the cash transactions of the Waste Management Group as an agency fund on its financial statements. Complete financial information can be obtained from the Clearwater County Auditor's Office or the Waste Management Group's office, P.O. Box 186, Bagley, Minnesota 56621.

Northwestern Minnesota Juvenile Center

The Northwestern Minnesota Juvenile Center was formed under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, effective August 1971, and includes Beltrami, Cass, Clearwater, Hubbard, Kittson, Lake of the Woods, Pennington, and Roseau Counties. The purpose of the Center is to provide rehabilitation and other services to juveniles under the jurisdiction of the court system. The offices of the Center are located in Bemidji, with satellite homes at various locations.

Control of the Center is vested in the Northwestern Minnesota Juvenile Center Joint Powers Board, which is composed of not less than seven nor more than 15 members, with at least one member appointed by each participating county, as provided in the Center's bylaws. At present, there are 13 directors: Beltrami, Cass, Hubbard, Pennington, and Roseau Counties have two directors each; the other member counties have one director each. In the event of dissolution, the net assets of the Center shall be divided among the member counties in the same proportion as their respective financial responsibilities.

Financing is provided by state and federal grants, charges for services, and appropriations from member counties. Beltrami County, in an agent capacity, reports the cash transactions of the Northwestern Minnesota Juvenile Center as an agency fund on its financial statements. Complete financial information can be obtained from the Beltrami County Auditor/Treasurer's Office or at the Center's office, P.O. Box 247, Bemidji, Minnesota 56619.

Quin County Community Health Service

The Quin County Community Health Service was formed in 1978 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Kittson, Marshall, Pennington, Red Lake, and Roseau Counties. The purpose of the Health Service is to develop and implement policies and procedures to promote efficiency and economy in the delivery of community health services.

Control of the Health Service is vested in the Quin County Board of Health which is composed of one member appointed by each of the member counties (total of five members, as provided in the joint powers agreement). In the event of dissolution of the Quin County Board of Health, the net assets of the Health Service shall be divided among the member counties in the same proportion as their respective financial responsibilities as determined by county population.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Quin County Community Health Service (Continued)

The Health Service has no long-term debt. Financing is provided by state and federal grants, charges for services, and appropriations from the member counties when needed. Marshall County, in an agent capacity, reports the cash transactions of the Health Service as an agency fund on its financial statements. Complete financial information can be obtained from the Marshall County Auditor/Treasurer's Office or the Health Service's office located in Newfolden, Minnesota 56738.

Williams Mobile Relay Station

The Williams Mobile Relay Station was formed in 1975 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Kittson, Marshall, Lake of the Woods, and Roseau Counties. The purpose of the Relay Station is to provide access to radio communications equipment for member counties.

Control of the Williams Mobile Relay Station is vested in an advisory board, which is composed of one representative appointed by each county board and the Lake of the Woods County Auditor or Deputy Auditor. In the event of dissolution of the Relay Station, the net assets at the time shall be distributed to the respective member counties in proportion to the contributions made by each.

The Williams Mobile Relay Station has no long-term debt. Financing is provided by contributions from each member county representing an equal share of annual expense. The County did not make a contribution to the Williams Mobile Relay Station in 2012. Complete financial information can be obtained from the Lake of the Woods County Auditor's Office, P.O. Box 808, Baudette, Minnesota 56623.

E. Related Organizations

Joe River Watershed District

The Joe River Watershed District was formed pursuant to Minnesota Statute, § 103D.201, effective January 31, 1958, and includes land within the boundaries of Kittson County. The purpose of the District is to conserve the natural resources of the state by land use planning, flood control, and other conservation projects by using sound scientific principles for the protection of the public health and welfare and the provident use of natural resources. Control of the District is vested in the Joe River Watershed District Board of managers which is composed of five members appointed by the Kittson County Board for staggered terms of three years each.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

E. Related Organizations (Continued)

Two Rivers Watershed District

The Two Rivers Watershed District was formed pursuant to Minnesota Statute, § 103D.201, effective October 30, 1957, and includes land within Kittson and Roseau Counties. The purpose of the District is to conserve the natural resources of the state by land use planning, flood control, and other conservation projects by using sound scientific principles for the protection of the public health and welfare and the provident use of natural resources. Control of the District is vested in the Two Rivers Watershed District Board of Managers which is composed by seven members having staggered terms of three years each, with five appointed by the Kittson County Board and two appointed by the Roseau County Board.

F. Jointly-Governed Organizations

Job Training Partnership Act Joint Powers Agreement

The Job Training Partnership Act Joint Powers Agreement was formed in July 1994 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Kittson, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Joint Powers Agreement is to designate the members of the Northwest Regional Development Commission's Board of Directors as the local elected officials to work with the Northwest Private Industry Council for the Northwest Service Delivery Area, including specific duties as listed in the Joint Powers Agreement.

In the event of dissolution of the Joint Powers Agreement, the net assets of the Joint Powers Board at that time shall be disposed of in accordance with law.

Financing is provided primarily from federal grants provided through the Job Training Partnership Act of 1982. Complete financial information can be obtained from the Northwest Regional Development Commission, Warren, Minnesota 56762.

Kittson County Children's Collaborative

The Kittson County Children's Collaborative was established in 2000 pursuant to Minnesota Statutes, §§ 121.8355 and 245.491. The Collaborative includes Kittson County Social Services; Kittson Central Public Schools; Lancaster Public Schools; Tri-County Public Schools; Kittson Memorial Home Healthcare (Public Health); Northwest Mental health Center, Inc.; Minnesota Department of Correction; Northwest Community Action/Head Start; and Northwest Regional Interagency Council. The purpose of the Collaborative is to improve the social, emotional, educational, and economic outcomes for all Kittson County children, adolescents, and their families by mitigating risk factors, enhancing protective factors and creating an integrated service delivery system for children, adolescents, and their families with multiple and special needs.

Control of the Kittson County Children's Collaborative is vested in a governing board. The board consists of one representative from each of the nine members.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations

Kittson County Children's Collaborative (Continued)

In the event of a withdrawal from the Kittson County Children's Collaborative, the withdrawing party shall give a 180-day notice. The withdrawing party shall remain liable for fiscal obligation incurred prior to the effective date of withdrawal, but shall incur no additional fiscal liability beyond the effective date of withdrawal. Upon termination of the Collaborative, all property and remaining funds shall be divided among the remaining members. Distribution shall be determined on the basis of the proportionate contribution paid pursuant to the agreement of the Collaborative members.

Financing is provided by state grants and appropriations from its members. Kittson County Social Services, in an agent capacity, reports the cash transactions of the Kittson County Children's Collaborative as an agency fund on the County's financial statements. During 2012, the County did not contribute to the Collaborative.

Minnesota Counties Computer Consortium

The Minnesota Counties Computer Consortium was formed in 1979 pursuant to Minnesota Statute, § 471.59 and includes 24 counties. Control of the Consortium is vested in the Joint Data Processing Board which is composed of one representative and one alternate appointed by each member county. The County's responsibility does not extend beyond making this appointment.

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Becker, Beltrami, Clay, Clearwater, Itasca, Kittson, Lake, Lake of the Woods, Mahnommen, Marshall, McLeod, Morrison, Norman, Pennington, Polk, Red Lake, and Roseau Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee which is composed of ten directors, each with an alternate, who are appointed annually by each respective county board. The County's responsibility does not extend beyond making this appointment.

Northwest Minnesota Council of Collaboratives

The Northwest Minnesota Council of Collaboratives is comprised of a variety of organizations from individual county collaboratives in northwest Minnesota representing Kittson, Marshall, Mahnommen, Norman, Polk and Red Lake Counties. Its 54 members include school districts and special education districts, and agencies in the areas of social services, public health, mental health and corrections. The primary goal of the Council is to promote the welfare of youth and families in the six-county area by coordinating human and financial resources to maximize the efficiency of services offered by its members. The Council also works to expand the resource base available to meet the growing needs of its population.

The members of the Northwest Minnesota Council of Collaboratives Governing Board will set policy, vision and mission. Each County's collaborative partner has two voting representatives at Governing Board meetings. Representatives must be at the CEO/Superintendent level.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations

Northwest Minnesota Council of Collaboratives (Continued)

Financing is provided by the collection of membership dues from the participating collaboratives and agency partners. Tri-County Community Corrections acts as fiscal agent for the Northwest Minnesota Council of Collaboratives and reports the cash transactions of the Council of Collaboratives as an agency fund in its financial statements. During 2012, Kittson County did not contribute to the Council of Collaboratives.

Separate financial information can be obtained from Tri-County Community Corrections, 816 Marin Avenue, Suite 110, Crookston, Minnesota 56716.

Northwest Minnesota Multi-County Housing and Redevelopment Authority

The Northwest Minnesota Multi-County Housing and Redevelopment Authority (HRA) was formed pursuant to Minnesota Statute, § 469.004, effective September 1972, and includes Kittson, Marshall, Pennington, Polk, Red Lake, and Roseau Counties. Control of the HRA is vested in the HRA Board which is composed of six members with indefinite terms made up of one member appointed by each board of county commissioners. Kittson County's responsibility does not extend beyond making this appointment.

Northwest Regional Library

The Northwest Regional Library was formed pursuant to Minnesota Statute, §§ 134.20 and 471.59, effective January 1, 1981, and includes Kittson, Marshall, Pennington, Red Lake, and Roseau Counties. Control of the Library is vested in the Northwest Regional Library Board which is composed of 16 members with staggered terms made up of the following: one member appointed by each board of county commissioners who may be a member of the Board of Commissioners, one member appointed by each participating city, and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. Kittson County appropriated \$57,411 to the Library for the year ended December 31, 2012.

Northwest Workforce Service Area

The Northwest Workforce Service Area was formed in July 2000 under the authority of the Workforce Investment Act of 1998 (Public Law 105-22), and includes Kittson, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Service Area is to increase participant's employment, retention, earnings, and occupational skill attainment, and result in improved workforce quality, reduced welfare dependency, and enhanced productivity and competitiveness.

Control of the Northwest Workforce Service Area is vested in the Northwest Private Industry Council/Workforce Council which is composed of 18 members, with one representative from each of the seven counties, three members at large, and eight members representing local agencies. In the event of dissolution of the Service Area, unexpended funds will be disposed of in accordance with law.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations

Northwest Workforce Service Area (Continued)

The Northwest Workforce Service Area has no long-term debt. Financing is provided by state and local grants. Complete financial information can be obtained from the Northwest Regional Development Commission, 115 South Main, Warren, Minnesota 56762.

Roseau River Watershed District

The Roseau River Watershed District was formed pursuant to Minnesota Statute, § 103D.201, effective June 17, 1963, and includes land within Beltrami, Kittson, Lake of the Woods, Marshall, and Roseau Counties. The purpose of the District is to conserve the natural resources of the state by land use planning, flood control, and other conservation projects by using sound scientific principles for the protection of the public health and welfare and the provident use of natural resources. Control of the District is vested in the Roseau River Watershed District Board of Managers which is composed of five members having staggered terms of three years each, with four appointed by the Roseau County Board and one appointed by the Kittson County Board.

REQUIRED SUPPLEMENTARY INFORMATION

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 2,080,929	\$ 2,080,929	\$ 2,132,588	\$ 51,659
Licenses and permits	3,450	3,450	5,115	1,665
Intergovernmental	1,055,921	1,055,921	1,087,471	31,550
Charges for services	208,748	208,748	211,801	3,053
Fines and forfeitures	3,000	3,000	3,950	950
Investment earnings	126,400	126,400	103,600	(22,800)
Miscellaneous	61,234	61,234	150,831	89,597
Total Revenues	\$ 3,539,682	\$ 3,539,682	\$ 3,695,356	\$ 155,674
Expenditures				
Current				
General government				
Commissioners	\$ 179,338	\$ 226,862	\$ 220,748	\$ 6,114
District court	10,300	26,643	26,431	212
Law library	4,500	5,967	6,062	(95)
County auditor/treasurer	419,707	435,264	444,796	(9,532)
County assessor	223,368	229,587	218,709	10,878
Elections	47,350	48,063	46,974	1,089
Professional services	20,500	20,500	20,071	429
Data processing	140,412	148,901	133,780	15,121
Attorney	76,557	73,269	73,505	(236)
Recorder	131,691	131,691	132,423	(732)
Surveyor	3,000	3,000	-	3,000
Buildings and grounds	217,016	217,016	174,642	42,374
GIS/LIS	44,700	44,700	43,690	1,010
Veterans service officer	29,320	29,320	31,152	(1,832)
Insurance	54,000	54,000	50,230	3,770
Other general government	31,173	51,304	29,798	21,506
Total general government	\$ 1,632,932	\$ 1,746,087	\$ 1,653,011	\$ 93,076

**KITTSON COUNTY
HALLOCK, MINNESOTA**

*Schedule 1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 694,771	\$ 699,771	\$ 692,868	\$ 6,903
Boat and water safety	500	500	135	365
Community corrections	185,544	185,544	200,963	(15,419)
Coroner	8,000	8,000	4,758	3,242
Enhanced 911	18,600	18,600	25,021	(6,421)
Emergency management	40,089	40,089	39,642	447
Fire protection	500	500	500	-
Local Emergency Planning Commission	1,000	1,000	20	980
Operation Stonegarden	135,599	135,599	78,382	57,217
Probation and parole	33,500	33,500	35,070	(1,570)
Safety committee	3,399	3,427	3,427	-
Transmission tower	6,226	6,226	3,339	2,887
Victim assistance	53,946	41,931	43,836	(1,905)
Total public safety	\$ 1,181,674	\$ 1,174,687	\$ 1,127,961	\$ 46,726
Sanitation				
Recycling	\$ 70,381	\$ 70,381	\$ 62,485	\$ 7,896
Solid waste	8,602	8,602	8,374	228
Total sanitation	\$ 78,983	\$ 78,983	\$ 70,859	\$ 8,124
Health				
Ambulance	\$ 29,068	\$ 29,068	\$ 29,068	\$ -
Hospice	7,500	7,500	7,500	-
Kittson wellness	770	770	1,085	(315)
Nutrition education	-	-	500	(500)
Total health	\$ 37,338	\$ 37,338	\$ 38,153	\$ (815)
Culture and recreation				
Historical society	\$ 50,395	\$ 50,395	\$ 50,395	\$ -
Regional library	51,670	51,670	57,411	(5,741)
Snowmobile and ski trails	106,065	106,065	106,136	(71)
Veterans organizations	500	500	500	-
Total culture and recreation	\$ 208,630	\$ 208,630	\$ 214,442	\$ (5,812)

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

*Schedule 1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Agricultural inspection	\$ 9,500	\$ 9,500	\$ 9,501	\$ (1)
Agricultural society	22,500	22,500	22,500	-
County extension	102,267	102,267	96,119	6,148
Predator and weed control	3,000	3,000	3,666	(666)
Soil and water conservation	39,027	39,027	39,027	-
Water planning	63,195	63,195	82,017	(18,822)
Total conservation of natural resources	\$ 239,489	\$ 239,489	\$ 252,830	\$ (13,341)
Economic development				
Housing and redevelopment authority	\$ 36,000	\$ 36,000	\$ 39,967	\$ (3,967)
Kittson Office of Economic Development	40,000	40,000	40,000	-
Minnesota Red River Valley Development Authority	1,200	1,200	1,200	-
Total economic development	\$ 77,200	\$ 77,200	\$ 81,167	\$ (3,967)
Total Current	\$ 3,456,246	\$ 3,562,414	\$ 3,438,423	\$ 123,991
Capital outlay				
General government	\$ 44,950	\$ 893,073	\$ 985,833	\$ (92,760)
Public safety	23,500	18,500	11,898	6,602
Total capital outlay	\$ 68,450	\$ 911,573	\$ 997,731	\$ (86,158)
Total Expenditures	\$ 3,524,696	\$ 4,473,987	\$ 4,436,154	\$ 37,833
Excess of Revenues Over (Under) Expenditures	\$ 14,986	\$ (934,305)	\$ (740,798)	\$ 193,507
Other Financing Sources (Uses)				
Transfers out	-	-	(1,448)	(1,448)
Net Change in Fund Balance	\$ 14,986	\$ (934,305)	\$ (742,246)	\$ 192,059
Fund Balance - January 1	5,523,759	5,523,759	5,523,759	-
Fund Balance - December 31	\$ 5,538,745	\$ 4,589,454	\$ 4,781,513	\$ 192,059

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 328,110	\$ 328,110	\$ 327,149	\$ (961)
Intergovernmental	4,735,625	4,735,625	4,155,137	(580,488)
Charges for services	633,500	633,500	516,816	(116,684)
Miscellaneous	65,387	65,387	147,319	81,932
Total Revenues	\$ 5,762,622	\$ 5,762,622	\$ 5,146,421	\$ (616,201)
Expenditures				
Current				
Highways and streets				
Administration	\$ 469,120	\$ 469,120	\$ 386,586	\$ 82,534
Engineering	468,652	468,652	528,492	(59,840)
Maintenance	1,147,093	1,147,093	1,052,878	94,215
Construction	2,818,750	2,818,750	2,116,641	702,109
Equipment maintenance and shop	513,303	513,303	470,532	42,771
Township roads	-	-	427,235	(427,235)
Total Current	\$ 5,416,918	\$ 5,416,918	\$ 4,982,364	\$ 434,554
Capital outlay				
Highways and streets	321,300	321,300	249,573	71,727
Total Expenditures	\$ 5,738,218	\$ 5,738,218	\$ 5,231,937	\$ 506,281
Excess of Revenues Over (Under) Expenditures	\$ 24,404	\$ 24,404	\$ (85,516)	\$ (109,920)
Fund Balance - January 1, as previously reported	\$ 502,089	\$ 502,089	\$ 502,089	\$ -
Prior period adjustment	32,148	32,148	32,148	-
Fund Balance - January 1, as restated	\$ 534,237	\$ 534,237	\$ 534,237	\$ -
Increase (decrease) in inventories	-	-	(91,299)	(91,299)
Fund Balance - December 31	\$ 558,641	\$ 558,641	\$ 357,422	\$ (201,219)

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 511,821	\$ 511,821	\$ 521,808	\$ 9,987
Intergovernmental	617,590	617,590	653,624	36,034
Charges for services	119,600	119,600	102,534	(17,066)
Investment earnings	-	-	214	214
Miscellaneous	70,650	70,650	206,442	135,792
Total Revenues	\$ 1,319,661	\$ 1,319,661	\$ 1,484,622	\$ 164,961
Expenditures				
Current				
Human services				
Income maintenance	\$ 390,874	\$ 390,874	\$ 472,818	\$ (81,944)
Social services	876,484	876,484	1,298,672	(422,188)
Transportation	27,800	27,800	38,549	(10,749)
Total Expenditures	\$ 1,295,158	\$ 1,295,158	\$ 1,810,039	\$ (514,881)
Excess of Revenues Over (Under) Expenditures	\$ 24,503	\$ 24,503	\$ (325,417)	\$ (349,920)
Fund Balance - January 1	1,762,248	1,762,248	1,762,248	-
Fund Balance - December 31	\$ 1,786,751	\$ 1,786,751	\$ 1,436,831	\$ (349,920)

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 4

**SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2012**

PRIMARY GOVERNMENT

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) — Simplified Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
January 1, 2010	-	395,552	395,552	-	2,678,254	14.8%
January 1, 2011	-	614,562	614,562	-	2,707,090	22.7%
January 1, 2012	-	-	-	-	2,806,435	0.0%

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 5

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2012**

PRIMARY GOVERNMENT

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2010	87,451	13,478	15%	223,000
December 31, 2011	91,663	23,969	26%	290,694
December 31, 2012	(35,201)	6,651	-19%	248,842

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

I. Budgetary Information

A. Budget Policy

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end.

On or before the end of July of each year, all departments and agencies submit requests for appropriations to the County Auditor/Treasurer so that a budget can be prepared. Before September 15, the proposed budget is presented to the County Board 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 (i.e., the level at which expenditures may not legally exceed appropriations) is the departmental level.

B. Excess of Expenditures Over Budget

The following departments had expenditures in excess of budget for the year ended December 31, 2012:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Law library	\$ 6,062	\$ 5,967	\$ (95)
County auditor/treasurer	444,796	435,264	(9,532)
Attorney	73,505	73,269	(236)
Recorder	132,423	131,691	(732)
Veterans service officer	31,152	29,320	(1,832)
Public safety			
Community corrections	200,963	185,544	(15,419)
Enhanced 911	25,021	18,600	(6,421)
Probation and parole	35,070	33,500	(1,570)
Victim assistance	43,836	41,931	(1,905)
Health			
Kittson wellness	1,085	770	(315)
Nutrition education	500	-	(500)
Culture and recreation			
Regional library	57,411	51,670	(5,741)
Snowmobile and ski trails	106,136	106,065	(71)
Conservation of natural resources			
Agricultural inspection	9,501	9,500	(1)
Predator and weed control	3,666	3,000	(666)
Water planning	82,017	63,195	(18,822)

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

I. Budgetary Information

B. Excess of Expenditures Over Budget (Continued)

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Economic development			
Housing and redevelopment authority	\$ 39,967	\$ 36,000	\$ (3,967)
Capital outlay			
General government	985,833	893,073	(92,760)
Road and Bridge Special Revenue Fund			
Highways and streets			
Engineering	528,492	468,652	(59,840)
Township roads	427,235	-	(427,235)
Social Services Special Revenue Fund			
Human services			
Income maintenance	472,818	390,874	(81,944)
Social services	1,298,672	876,484	(422,188)
Transportation	38,549	27,800	(10,749)

II. Other Post-Employment Benefits (OPEB)

Primary Government

For the year ended December 31, 2012, the composition of the population covered by the plan and the actuarial methods and assumptions used did not significantly differ. County blended rates were higher in 2012 than private insurance rates which resulted in a decline in the OPEB liability. Additional information can be found on Schedules 4 and 5 of this section and the Notes to the Financial Statements Section V., Other Post-Employment Benefits.

SUPPLEMENTARY INFORMATION

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The Ditch Special Revenue Fund is used to account for and report the operation and maintenance of county, judicial, and state drainage systems. Financing is provided by special assessments levied against benefited properties restricted for conservation of natural resources.

The Forfeited Tax Sale Special Revenue Fund is used to account for and report proceeds from the sale or rental of lands forfeited to the State of Minnesota pursuant to Minnesota Statutes, Chapter 282 and various forest and timber management grants. The net proceeds, after deducting allowable expenses, are restricted to various County funds and taxing districts. Titles to the tax-forfeited lands remains with the State until the lands are sold by the County. As of December 31, 2012, this fund had an unassigned fund balance of \$(19,729).

The Government Commitment Special Revenue Fund is used to account for and report the proceeds of excess special assessments from the North Kittson and Kittson-Marshall Rural Water Systems. The proceeds are assigned to retire “points debt” issued by the County should the joint powers board assessments be insufficient to pay Kittson County’s commitment debt. This fund was closed in 2012.

The Health Insurance Special Revenue Fund is used to account for and report financial resources assigned to commercial health insurance.

The Unorganized Townships Special Revenue Fund is used to account for and report the financial activities of four unorganized townships. Financing is provided by annual tax levies assigned to unorganized townships.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	Special Revenue Funds			Total Nonmajor Special Revenue Funds (Exhibit 3)
	Ditch	Forfeited Tax Sale	Unorganized Townships	
<u>Assets</u>				
Cash and pooled investments	\$ 492,677	\$ 100	\$ 251,205	\$ 743,982
Taxes receivable - prior	-	-	413	413
Special assessments receivable - prior	1,764	-	-	1,764
Due from other governments	20,841	-	-	20,841
Total Assets	\$ 515,282	\$ 100	\$ 251,618	\$ 767,000
<u>Liabilities, Deferred Inflows and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 1,351	\$ 2,685	\$ -	\$ 4,036
Due to other funds	196	-	2,994	3,190
Due to other governments	4,317	100	-	4,417
Advances from other funds	12,320	17,044	-	29,364
Total Liabilities	\$ 18,184	\$ 19,829	\$ 2,994	\$ 41,007
Deferred Inflows				
Taxes	\$ -	\$ -	\$ 379	\$ 379
Fund Balances				
Restricted for conservation of natural resources	\$ 497,098	\$ -	\$ -	\$ 497,098
Assigned to unorganized townships	-	-	248,245	248,245
Unassigned	-	(19,729)	-	(19,729)
Total Fund Balances	\$ 497,098	\$ (19,729)	\$ 248,245	\$ 725,614
Total Liabilities, Deferred Inflows and Fund Balances	\$ 515,282	\$ 100	\$ 251,618	\$ 767,000

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Special Revenue Funds					Total Nonmajor Special Revenue Funds (Exhibit 5)
	Ditch	Forfeited Tax Sale	Government Commitment	Health Insurance	Unorganized Townships	
Revenues						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 51,034	\$ 51,034
Special assessments	81,186	-	-	-	-	81,186
Intergovernmental	216,986	-	-	-	104,916	321,902
Charges for services	35,001	-	-	-	-	35,001
Land and timber sales	-	7,962	-	-	-	7,962
Miscellaneous	-	-	-	543,302	-	543,302
Total Revenues	\$ 333,173	\$ 7,962	\$ -	\$ 543,302	\$ 155,950	\$ 1,040,387
Expenditures						
Current						
General government	\$ -	\$ -	\$ -	\$ 544,750	\$ -	\$ 544,750
Public safety	-	-	-	-	4,886	4,886
Highways and streets	-	-	-	-	51,378	51,378
Conservation of natural resources	109,948	27,516	-	-	-	137,464
Total Current	\$ 109,948	\$ 27,516	\$ -	\$ 544,750	\$ 56,264	\$ 738,478
Debt Service						
Interest	8,896	-	-	-	-	8,896
Total Expenditures	\$ 118,844	\$ 27,516	\$ -	\$ 544,750	\$ 56,264	\$ 747,374
Excess of Revenues Over (Under) Expenditures	\$ 214,329	\$ (19,554)	\$ -	\$ (1,448)	\$ 99,686	\$ 293,013
Other Financing Sources (Uses)						
Transfers in	\$ -	\$ -	\$ -	\$ 1,448	\$ -	\$ 1,448
Transfers out	-	-	(8,894)	-	-	(8,894)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (8,894)	\$ 1,448	\$ -	\$ (7,446)
Net Change in Fund Balance	\$ 214,329	\$ (19,554)	\$ (8,894)	\$ -	\$ 99,686	\$ 285,567
Fund Balance - January 1	282,769	(175)	8,894	-	148,559	440,047
Fund Balance - December 31	\$ 497,098	\$ (19,729)	\$ -	\$ -	\$ 248,245	\$ 725,614

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special assessments	\$ 80,500	\$ 80,500	\$ 81,186	\$ 686
Intergovernmental	-	-	216,986	216,986
Charges for services	-	-	35,001	35,001
Total Revenues	\$ 80,500	\$ 80,500	\$ 333,173	\$ 252,673
Expenditures				
Current				
Conservation of natural resources				
Administration	-	-	2,964	(2,964)
Maintenance and repairs	45,900	45,900	106,984	(61,084)
Total conservation of natural resources	\$ 45,900	\$ 45,900	\$ 109,948	\$ (64,048)
Debt service				
Interest	-	-	8,896	(8,896)
Total Expenditures	\$ 45,900	\$ 45,900	\$ 118,844	\$ (72,944)
Excess of Revenues Over (Under) Expenditures	\$ 34,600	\$ 34,600	\$ 214,329	\$ 179,729
Fund Balance - January 1	282,769	282,769	282,769	-
Fund Balance - December 31	\$ 317,369	\$ 317,369	\$ 497,098	\$ 179,729

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Land and timber sales	\$ 6,625	\$ 6,625	\$ 7,962	\$ 1,337
Expenditures				
Current				
Conservation of natural resources				
Forfeited land	10,030	10,030	27,516	(17,486)
Excess of Revenues Over (Under)				
Expenditures	\$ (3,405)	\$ (3,405)	\$ (19,554)	\$ (16,149)
Fund Balance - January 1	(175)	(175)	(175)	-
Fund Balance - December 31	<u>\$ (3,580)</u>	<u>\$ (3,580)</u>	<u>\$ (19,729)</u>	<u>\$ (16,149)</u>

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
GOVERNMENT COMMITMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (8,894)	\$ (8,894)
Fund Balance - January 1	<u>8,894</u>	<u>8,894</u>	<u>8,894</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 8,894</u>	<u>\$ 8,894</u>	<u>\$ -</u>	<u>\$ (8,894)</u>

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 9

**BUDGETARY COMPARISON SCHEDULE
HEALTH INSURANCE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ 540,622	\$ 540,622	\$ 543,302	\$ 2,680
Expenditures				
Current				
General government				
Insurance	540,622	540,622	544,750	(4,128)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (1,448)	\$ (1,448)
Other Financing Sources (Uses)				
Transfers in	-	-	1,448	1,448
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ -	\$ -	\$ -	\$ -

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 10

**BUDGETARY COMPARISON SCHEDULE
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 51,700	\$ 51,700	\$ 51,034	\$ (666)
Intergovernmental	29,775	29,775	104,916	75,141
Total Revenues	\$ 81,475	\$ 81,475	\$ 155,950	\$ 74,475
Expenditures				
Current				
Public safety				
Fire protection	\$ 4,900	\$ 4,900	\$ 4,886	\$ 14
Highways and streets				
Township roads	67,960	67,960	51,378	16,582
Total Expenditures	\$ 72,860	\$ 72,860	\$ 56,264	\$ 16,596
Excess of Revenues Over (Under) Expenditures	\$ 8,615	\$ 8,615	\$ 99,686	\$ 91,071
Fund Balance - January 1	148,559	148,559	148,559	-
Fund Balance - December 31	\$ 157,174	\$ 157,174	\$ 248,245	\$ 91,071

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

FIDUCIARY FUNDS

The Mar-Kit Landfill Investment Trust Fund is used to account for the investments held by Kittson County for the Mar-Kit Landfill Joint Venture.

Agency Funds

The Agency Fund is used to account for the collection and payment of funds due to various taxing districts.

The Flexible Benefits Agency Fund is used to account for the payroll deductions of employees enrolled in the flexible spending program.

The Kittson County Children's Collaborative Agency Fund is used to account for the receipt and disbursements of funds for the Kittson County Children's Collaborative.

The Kittson County Economic Development Authority Agency Fund is used to account for the receipt and disbursements of funds for the Kittson County Economic Development Authority.

The Kittson-Marshall Rural Water System Agency Fund is used to account for the collection of special assessments and payment on the general obligation long-term debt of Kittson-Marshall Rural Water System Joint Venture.

The Mar-Kit Landfill Agency Fund is used to account for the receipt and disbursements of funds for the Mar-Kit Landfill Joint Venture.

The State Agency Fund is used to account for the collection and payment of funds due to the State of Minnesota.

The Taxes and Penalties Agency Fund is used to account for the collection of taxes and penalties, special assessments, and mortgage registry taxes and their payment to the various County funds and taxing districts.

The Watershed Ditch Agency Fund is used to account for the receipt and disbursements of funds for the Watershed ditches.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 27,123	\$ 4,570,118	\$ 4,583,176	\$ 14,065
<u>Liabilities</u>				
Due to other governments	\$ 27,123	\$ 4,570,118	\$ 4,583,176	\$ 14,065
 <u>FLEXIBLE BENEFITS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 5,798	\$ 33,887	\$ 29,107	\$ 10,578
<u>Liabilities</u>				
Accounts payable	\$ 5,798	\$ 33,887	\$ 29,107	\$ 10,578
 <u>KITTSOON COUNTY CHILDREN'S COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 10,706	\$ 11,494	\$ 11,221	\$ 10,979
<u>Liabilities</u>				
Accounts payable	\$ 10,706	\$ 11,494	\$ 11,221	\$ 10,979
 <u>KITTSOON COUNTY ECONOMIC DEVELOPMENT AUTHORITY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 65,165	\$ 87,043	\$ 35,659	\$ 116,549
<u>Liabilities</u>				
Accounts payable	\$ 65,165	\$ 87,043	\$ 35,659	\$ 116,549

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>KITTSOON-MARSHALL RURAL WATER SYSTEM</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 5,474	\$ 587	\$ 5,400	\$ 661
<u>Liabilities</u>				
Due to other governments	\$ 5,474	\$ 587	\$ 5,400	\$ 661
 <u>MAR-KIT LANDFILL</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,484,453	\$ 2,438,168	\$ 1,919,509	\$ 2,003,112
<u>Liabilities</u>				
Due to other governments	\$ 1,484,453	\$ 2,438,168	\$ 1,919,509	\$ 2,003,112
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 14,744	\$ 1,635,375	\$ 1,634,425	\$ 15,694
<u>Liabilities</u>				
Due to other governments	\$ 14,744	\$ 1,635,375	\$ 1,634,425	\$ 15,694
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 114,303	\$ 8,827,000	\$ 8,803,065	\$ 138,238
<u>Liabilities</u>				
Due to other governments	\$ 114,303	\$ 8,827,000	\$ 8,803,065	\$ 138,238

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>WATERSHED DITCH</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,223	\$ 1,223	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,223	\$ 1,223	\$ -
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,727,766	\$ 17,604,895	\$ 17,022,785	\$ 2,309,876
<u>Liabilities</u>				
Accounts payable	\$ 81,669	\$ 132,424	\$ 75,987	\$ 138,106
Due to other governments	1,646,097	17,472,471	16,946,798	2,171,770
Total Liabilities	\$ 1,727,766	\$ 17,604,895	\$ 17,022,785	\$ 2,309,876

OTHER SCHEDULES

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2012**

	Assets			Total
	Cash and Pooled Investments	Special Assessments Receivable - Prior	Due from Other Governments	
County Ditches				
1	\$ 48,094	\$ -	\$ -	\$ 48,094
4	12,284	22	-	12,306
8	9,905	-	-	9,905
9	11,394	-	-	11,394
11	9,444	-	-	9,444
12	13,655	14	-	13,669
13	102	-	-	102
14	8,811	1	-	8,812
15	49	-	-	49
16	48,744	805	-	49,549
17	13,163	-	-	13,163
18	8,339	57	-	8,396
19	18,405	-	-	18,405
20	6,207	-	-	6,207
21	15	-	-	15
22	20,285	-	-	20,285
23	7,615	123	-	7,738
25	13,904	-	-	13,904
26	7,163	-	-	7,163
27	26,898	-	-	26,898
28	13,266	-	-	13,266
29	20,012	38	-	20,050
30	6,429	-	-	6,429
31	15,039	-	-	15,039
33	4,834	-	-	4,834
Joint County Ditches				
31	10,585	61	-	10,646
32	2,519	-	-	2,519
33	11,601	-	4	11,605
State Ditches				
1	8,849	355	-	9,204
48R	1,061	31	-	1,092
50	18	-	1,500	1,518
72	36	9	17,368	17,413
84	23,822	46	-	23,868
85	26,822	-	-	26,822
90	9,922	122	1,356	11,400
95	53,386	80	613	54,079
Total	\$ 492,677	\$ 1,764	\$ 20,841	\$ 515,282

Schedule 11

Liabilities					Fund Balances Restricted	Total Liabilities and Fund Balances
Accounts Payable	Due to Other Funds	Due to Other Governments	Advances from Other Funds	Total		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,094	\$ 48,094
-	-	-	-	-	12,306	12,306
-	-	-	-	-	9,905	9,905
-	-	-	-	-	11,394	11,394
-	-	-	-	-	9,444	9,444
-	-	-	-	-	13,669	13,669
-	-	-	2,220	2,220	(2,118)	102
-	-	-	-	-	8,812	8,812
-	-	-	5,200	5,200	(5,151)	49
-	-	-	-	-	49,549	49,549
-	-	-	-	-	13,163	13,163
-	-	-	-	-	8,396	8,396
-	-	-	-	-	18,405	18,405
-	-	-	-	-	6,207	6,207
-	-	-	950	950	(935)	15
-	-	-	-	-	20,285	20,285
-	-	-	-	-	7,738	7,738
-	-	-	-	-	13,904	13,904
-	-	-	-	-	7,163	7,163
-	-	-	-	-	26,898	26,898
-	-	-	-	-	13,266	13,266
-	-	-	-	-	20,050	20,050
-	-	-	-	-	6,429	6,429
-	-	-	-	-	15,039	15,039
-	-	-	-	-	4,834	4,834
-	-	-	-	-	10,646	10,646
-	-	-	-	-	2,519	2,519
-	-	-	-	-	11,605	11,605
-	-	-	-	-	9,204	9,204
-	-	-	-	-	1,092	1,092
551	-	-	450	1,001	517	1,518
-	-	2,642	3,500	6,142	11,271	17,413
-	196	-	-	196	23,672	23,868
-	-	-	-	-	26,822	26,822
560	-	-	-	560	10,840	11,400
240	-	1,675	-	1,915	52,164	54,079
\$ 1,351	\$ 196	\$ 4,317	\$ 12,320	\$ 18,184	\$ 497,098	\$ 515,282

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 12

**BALANCE SHEET - BY UNORGANIZED TOWNSHIP
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND
DECEMBER 31, 2012**

	Klondike	McKinley	North Red River	Peatland	Total
<u>Assets</u>					
Cash and pooled investments	\$ 16,212	\$ 39,936	\$ 135,860	\$ 59,197	\$ 251,205
Taxes receivable - prior	365	14	-	34	413
Total Assets	\$ 16,577	\$ 39,950	\$ 135,860	\$ 59,231	\$ 251,618
<u>Liabilities, Deferred Inflows and Fund Balance</u>					
Liabilities					
Due to other funds	\$ 550	\$ 742	\$ 1,657	\$ 45	\$ 2,994
Deferred Inflows					
Taxes	365	14	-	-	379
Fund Balances					
Assigned to unorganized townships	15,662	39,194	134,203	59,186	248,245
Total Liabilities, Deferred Inflows and Fund Balance	\$ 16,577	\$ 39,950	\$ 135,860	\$ 59,231	\$ 251,618

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 13

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Primary Government
Shared Revenue	
State	
County program aid	\$ 164,302
Disparity reduction aid	4,455
Enhanced 911	74,183
Highway users tax	3,927,853
Market value credit	63,766
PERA rate reimbursement	12,208
Police state aid	32,363
Total Shared Revenue	\$ 4,279,130
Payments	
Payments in lieu of taxes	\$ 152,894
Grants	
Local	
Markit Landfill	\$ 141,000
Northwest Regional Development Commission	4,483
Total Local	\$ 145,483
State	
Minnesota Department/Board of	
Corrections	\$ 10,454
Human Services	234,786
Natural Resources	63,682
Peace Officer Standards and Training	1,993
Public Safety	110,948
Transportation	131,483
Pollution Control Agency	55,950
Veterans Affairs	3,698
Water and Soil Resources	121,628
Total State	\$ 734,622
Federal	
Department of	
Agriculture	\$ 36,928
Commerce	18,048
Health and Human Services	381,192
Homeland Security	404,071
Housing and Urban Development	36,131
Justice	29,635
Total Federal	\$ 906,005
Total Grants	\$ 1,786,110
Total Intergovernmental Revenue	\$ 6,218,134

MANAGEMENT AND COMPLIANCE SECTION

**KITTSON COUNTY
HALLOCK, MINNESOTA**

Schedule 14

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unmodified opinion on the financial statements of Kittson County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Kittson County and are reported in the "Independent Auditor's 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*." None of the significant deficiencies are material weaknesses.
- C. No instances of noncompliance material to the financial statements of Kittson County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program was reported in the "Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by in OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for Kittson County expresses an unmodified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program was Medical Assistance Program, CFDA #93.778.
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Kittson County was determined to be a low-risk auditee.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 14
(Continued)

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 **Segregation of Duties**

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

A deficiency in internal control 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.

We recommend that Kittson County's management be aware of the lack of segregation of the accounting and data processing functions and, if possible, implement oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

County's Response:

The County Board and the Department Administrators will continue to monitor the operations within their offices and will consider additional procedures to ensure internal control.

07-1 **Internal Controls**

The financial statements are the responsibility of the County's management. Internal control over financial reporting is a process designed to provide reasonable assurance about the achievement of the County's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the County's objective of reliable financial reporting. In this section, the term financial reporting relates to the preparation of reliable financial statements that are fairly presented in conformity with GAAP.

Management must implement internal controls over financial reporting and safeguarding of assets, and continue to be aware of their responsibility and to maintain suitable skills, knowledge, and expertise to sufficiently review, understand, and approve the County's financial statements, including notes.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 14
(Continued)

County's Response:

The County has been working with a consulting service to stay in compliance with SAS and GASB reporting standards. In order to maintain safeguarding of the County's assets we have a capital assets program that monitors our assets. We also tag all assets with a County inventory tag and take a physical inventory annually.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RESPONSES

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-3 Ditch Restricted Fund Balances

Three of the 36 active individual ditch funds had deficit restricted fund balances as of December 31, 2012. The individual ditch fund deficits totaled \$8,204, with the largest individual ditch fund deficit being \$5,151.

Minnesota Statute, § 103E.735. Subd. 1, provides that a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

We recommend that the County eliminate the individual ditch system fund balance deficits by levying assessments pursuant to Minnesota Statute, § 103E.735, which permits the accumulation of a surplus balance for future repairs and maintenance costs of a ditch system.

County's Response:

The County Board continues to work on eliminating the number of ditch balances that are negative. Ditch trial balances are presented to the County Board, as well as quarterly financial reports to heighten their awareness of funds available for maintenance on individual ditches. The levies for the ditches are determined by the prior year's maintenance to cover the deficits.



GOVERNMENTAL AUDIT SERVICES

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**INDEPENDENT AUDITOR'S 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**

Board of County Commissioners
Kittson County

We have audited, in accordance with the 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kittson County as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 29, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kittson County's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A deficiency in internal control 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 a combination of deficiencies, in internal control 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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 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, described in the accompanying Schedule of Findings and Questioned Costs as items 96-1 and 07-1, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kittson County's financial statements are free of 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as a management practices comment, item 96-3.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute, § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven categories of compliance to be tested: depositories of public funds and public investments, conflicts of interest, public indebtedness, contracting - bid laws, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories. The results of our tests indicate that for the items tested, Kittson County complied with the material terms and conditions of applicable legal provisions.

County's Response to Findings

The County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the County's internal control 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 and compliance. Accordingly, this communication is not suitable for any other purpose.



Hoffman, Dale, & Swenson, PLLC

August 29, 2013



GOVERNMENTAL AUDIT SERVICES

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Board of County Commissioners
Kittson County

Report on Compliance for the Major Federal Program

We have audited Kittson County's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2012. The 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kittson 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.

Opinion on the Major Federal Program

In our opinion, Kittson 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, 2012.

Report on Internal Control Over Compliance

Management of Kittson County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kittson County as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated August 29, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and

other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Hoffman, Dale, & Swenson

Hoffman, Dale, & Swenson, PLLC

August 29, 2013

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 15

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ <u>36,928</u>
U.S. Department of Commerce		
Passed Through Minnesota Department of Public Safety Public Safety Interoperable Communications Grant Program	11.555	\$ <u>18,048</u>
U.S. Department of Housing and Urban Development		
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grants	14.228	\$ <u>36,131</u>
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Crime Victim Assistance	16.575	\$ <u>29,635</u>
U.S. Election Assistance Commission		
Passed Through Minnesota Department of Secretary of State Help America Vote Act Requirements Payments	90.401	\$ <u>8,819</u>
U.S. Department of Health and Human Services		
Passed Through Northwest Regional Development Commission Special Programs for the Aging - Title III-B	93.044	\$ 4,000
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	222
Temporary Assistance for Needy Families	93.558	44,411
Child Support Enforcement	93.563	57,074
Refugee and Entrant Assistance	93.566	76
Child Care and Development Fund Cluster Child Care and Development Block Grant	93.575	\$ 688
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	<u>170</u>
Total Child Care and Development Fund Cluster		858
Foster Care Title IV-E	93.658	14,894
Social Services Block Grant	93.667	52,301
Children's Health Insurance Program	93.767	12
Medical Assistance Program	93.778	<u>207,344</u>
Total U.S. Department of Health and Human Services		\$ <u>381,192</u>

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**Schedule 15
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance	97.036	\$ 30,915
Emergency Management Performance Grants	97.042	20,162
Homeland Security Grant Program	97.067	<u>112,105</u>
Total U.S. Department of Homeland Security		\$ 163,182
Total Federal Awards		<u>\$ 673,935</u>

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

I. Reporting Entity

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

II. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Kittson County under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of Office Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Kittson County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Kittson County.

III. Summary of Significant Accounting Policies

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

IV. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 906,005
Add: Help America Vote Act grant received in prior years and expended in current year	8,819
Less: Disaster Grants - Public Assistance grant received in current year and expended in prior years	<u>(240,889)</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u><u>\$ 673,935</u></u>

V. Subrecipients

During 2012, the County did not pass any federal money to subrecipients.