

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

YEAR ENDED DECEMBER 31, 2009

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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## **INTRODUCTORY SECTION**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**ORGANIZATION SCHEDULE  
DECEMBER 31, 2009**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
<b>Commissioners</b>		
1 <sup>st</sup> District	Craig Spilde	January 2013
2 <sup>nd</sup> District	John Anderson	January 2013
3 <sup>rd</sup> District	Joe Bouvette, Chair	January 2011
4 <sup>th</sup> District	Leon Olson	January 2013
5 <sup>th</sup> District	Betty Younggren	January 2011
<b>Officers</b>		
Elected:		
Attorney	Roger Malm	January 2011
Auditor/Treasurer	Marilyn Gustafson	January 2011
Recorder	Kristi Hultgren	January 2011
Sheriff	Kenny Hultgren	January 2011
Appointed:		
Assessor	Marian Paulson	December 2012
Highway Engineer	Kelly Bengtson	January 2011
Medical Examiner	Mary Ann Sens	Indefinite
Veterans Service Officer	Bob Cameron	May 2013
Environmental Officer	Holly Anderson	Indefinite
Social Services Director	Kathleen Johnson	Indefinite

## **FINANCIAL SECTION**



Colleen Hoffman, Manager  
Gordon Dale, CPA  
Audrey Swenson, CPA

**GOVERNMENTAL AUDIT SERVICES**

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choffman@mncable.net

**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, 2009, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic 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 as of December 31, 2009, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2010, 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* and should be considered in assessing the results of our audit.

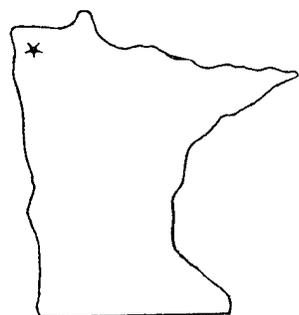
The Management's Discussion and Analysis and the required supplementary information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 and the supplementary information, 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 of Kittson County. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Hoffman, Dale, & Swenson*

Hoffman, Dale, & Swenson, PLLC

July 7, 2010



# 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, 2009. 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 assets of governmental activities are \$58,818,276, of which \$51,102,931 is invested in capital assets, net of related debt, \$1,739,503 is restricted for specific purposes, and \$5,975,842 is unrestricted. The total net assets of governmental activities increased by \$2,137,754 for the year ended December 31, 2009. This is attributed primarily to highway construction projects financed by County State Aid Highway funding.

At the close of 2009, the County's governmental funds reported combined ending fund balances of \$7,445,888, an increase of \$66,455 from the prior year. Of the total fund balance amount, \$1,961,462 is legally or contractually reserved, \$4,922,956 is designated for specific purposes, and an additional \$561,470 is available for spending at the County's discretion and is noted as unreserved, undesignated 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 and liabilities 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 Assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 Assets* 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 other five 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 11 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 23 and 79 of this report.

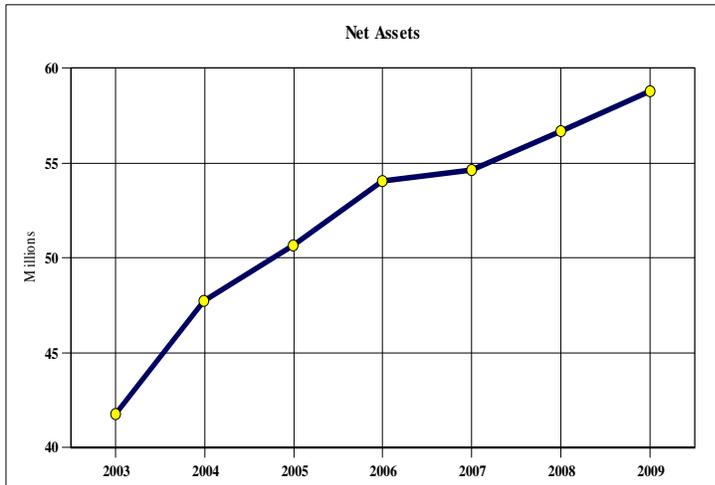
**Notes to the Financial Statements**

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 24 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 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 assets serve as a useful indicator of the County’s financial position. The County’s assets exceeded liabilities by \$58,818,276 at the close of 2009. The largest portion of the County’s net assets (approximately 87 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 three percent of the County’s net assets are restricted and 10 percent of the County’s net assets are unrestricted. The unrestricted net asset amount of \$5,975,842, as of December 31, 2009, may be used to meet the County’s ongoing obligations to citizens.



The County’s overall financial position increased from last year. Total assets increased by \$3,186,594, from the prior year, primarily due to completed highway projects added to infrastructure. Total liabilities increased by \$1,048,840, from the prior year, mainly due to an increase in deferred revenue for advance receipts of County State Aid Highway allotments and carryover in contracts payable. This resulted in increased net assets of \$2,137,754 from the prior year.

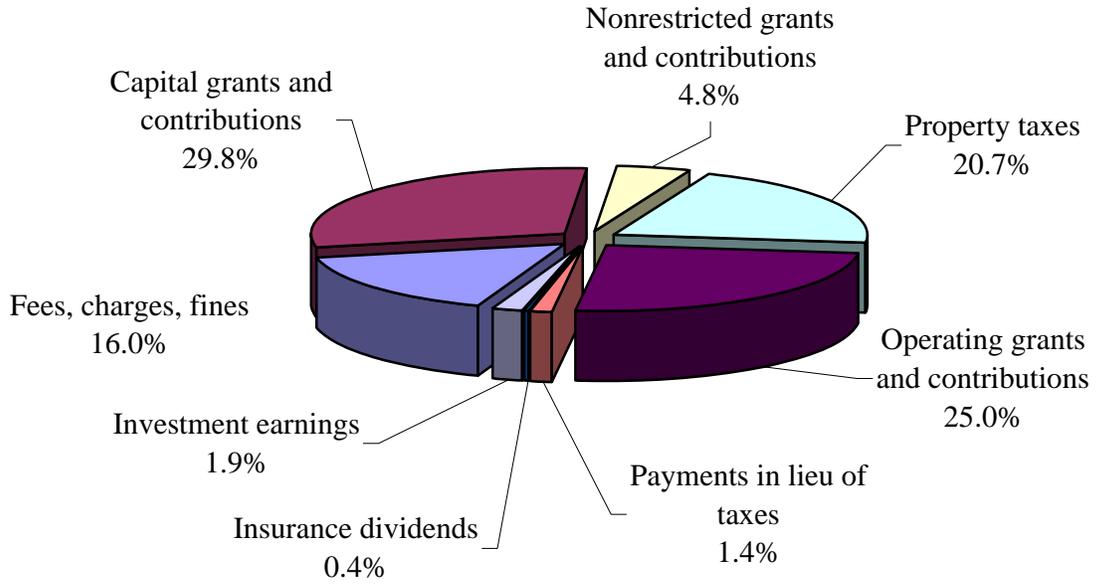
## NET ASSETS

	Primary Government	
	Governmental Activities	
	2009	2008
Current and other assets	\$ 9,925,701	\$ 9,803,008
Capital assets	51,102,931	48,039,030
Total assets	\$ 61,028,632	\$ 57,842,038
Other liabilities	\$ 1,693,612	\$ 719,791
Long-term liabilities outstanding	516,744	441,725
Total liabilities	\$ 2,210,356	\$ 1,161,516
Net assets		
Invested in capital assets, net of related debt	\$ 51,102,931	\$ 48,039,030
Restricted	1,739,503	2,806,263
Unrestricted	5,975,842	5,835,229
Total net assets	\$ 58,818,276	\$ 56,680,522

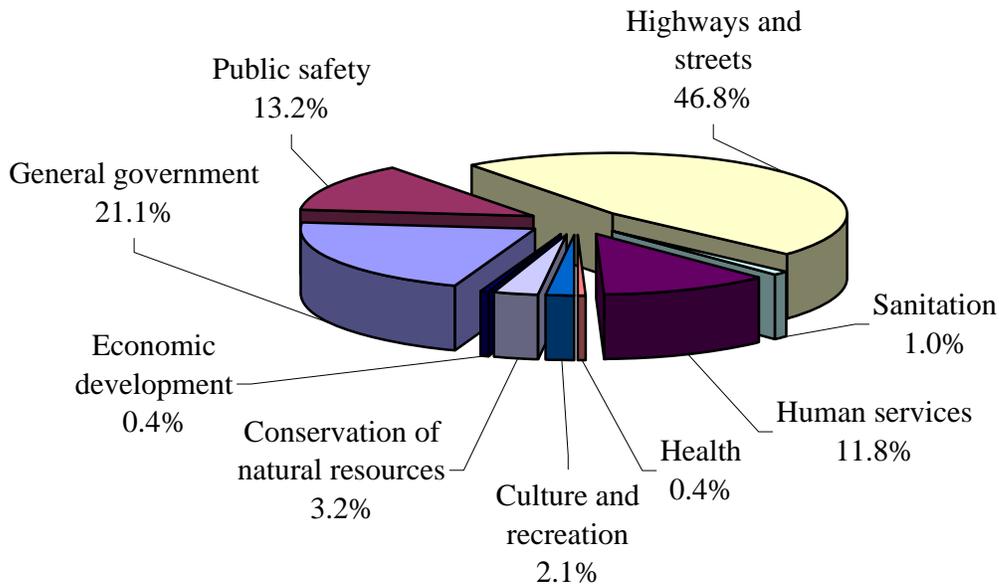
## CHANGES IN NET ASSETS

	Primary Government	
	Governmental Activities	
	2009	2008
Revenues		
Program Revenues		
Charges for services	\$ 1,905,174	\$ 2,444,991
Operating grants and contributions	2,976,539	3,288,478
Capital grants and contributions	3,553,283	2,263,652
General Revenues		
Property taxes	2,467,464	2,368,527
Grants and contributions not restricted to specific programs	570,083	538,603
Payments in lieu of taxes	165,305	161,767
Insurance dividends	44,889	51,112
Investment earnings	231,712	438,692
Total revenues	\$ 11,914,449	\$ 11,555,822
Expenses		
General government	\$ 2,066,458	\$ 2,177,203
Public safety	1,287,040	1,034,828
Highways and streets	4,579,881	4,298,155
Sanitation	97,552	99,249
Human services	1,154,994	1,188,197
Health	36,568	36,568
Culture and recreation	202,515	228,512
Conservation of natural resources	309,987	371,560
Economic development	41,700	91,700
Total expenses	\$ 9,776,695	\$ 9,525,972
Increase (decrease) in net assets	\$ 2,137,754	\$ 2,029,850
Net assets, January 1	56,680,522	54,650,672
Net assets, December 31	\$ 58,818,276	\$ 56,680,522

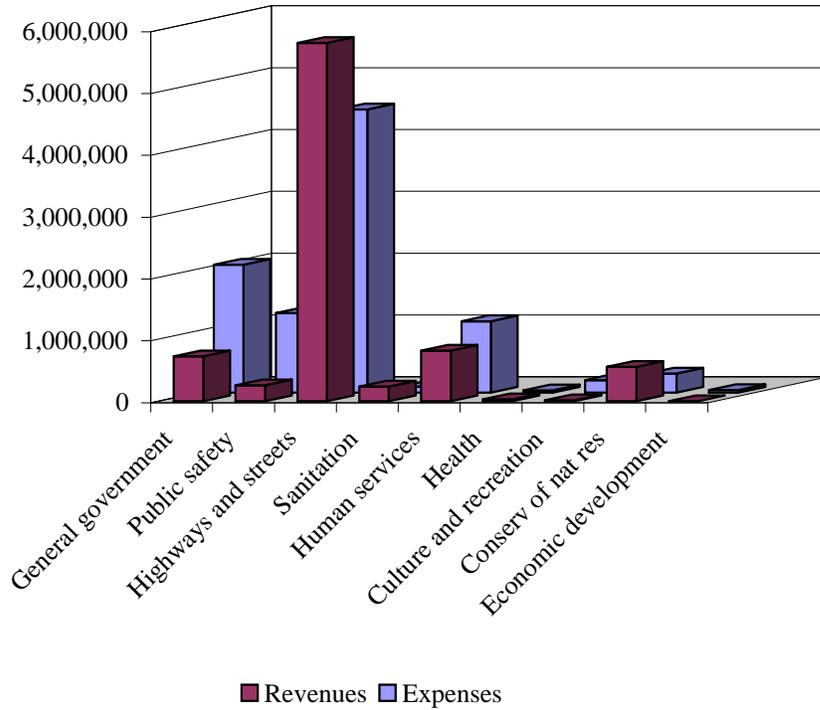
## Revenues by Source



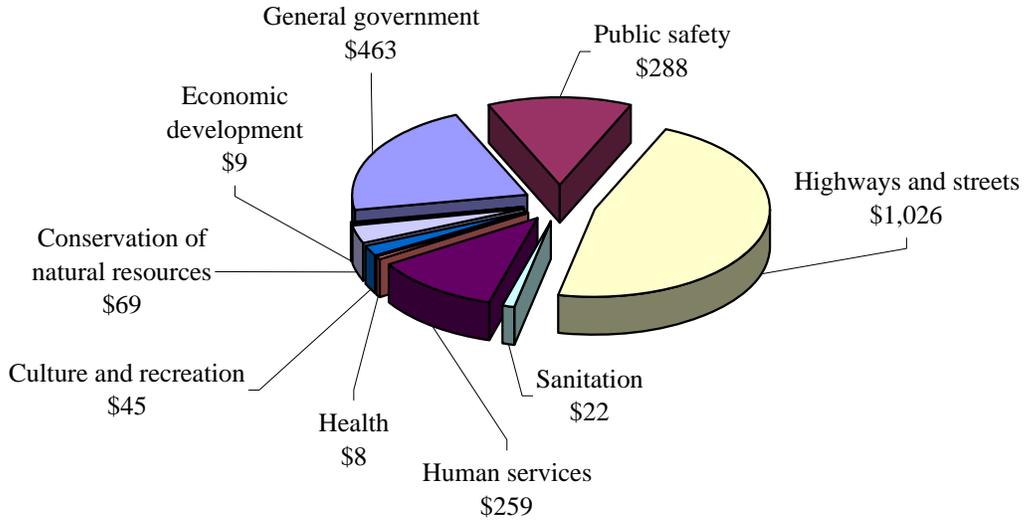
## Expenses by Function



### Program Revenues & Expenses



### Expenditures Per Capita 4,462 Population as of 07-01-08



## **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, unreserved 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 2009, the County's governmental funds reported combined ending fund balances of \$7,445,888. Of this amount, approximately 26 percent constitutes legally or contractually reserved fund balance, 66 percent constitutes specifically designated fund balance, and eight percent constitutes available unreserved, undesignated 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 \$5,840,388. The General Fund's reserved fund balance was \$649,258, unreserved, designated fund balance was \$3,910,864, and the unreserved, undesignated fund balance was \$1,280,266. As a measure of the General Fund's liquidity, it is useful to compare both unreserved fund balance and total fund balance to total fund expenditures for 2009. Unreserved fund balance represents about 154 percent of total General Fund expenditures, while total fund balance represents 173 percent of that same amount.

In 2009, the fund balance amount in the General Fund increased by \$211,364, primarily due to unexpected revenues and a decrease in budgeted expenditures.

The fund balance of the Road and Bridge Special Revenue Fund decreased by \$797,692 in 2009, due to increased fuel costs, purchases of machinery and equipment and flood expenses.

The fund balance of the Social Services Special Revenue Fund increased \$219,632 from the prior year due to an increase in Medical Assistance recoveries and a decrease in budgeted expenditures.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

The budget amendments in 2009 consisted of an overall increase in budgeted revenues of \$335,317, due to an increase in Homeland Security grant monies, Minnesota Counties Insurance Trust dividends and Federal Stimulus Highway funds. The budget amendments in 2009 also consisted of an overall increase in budgeted expenditures of \$237,885, due to Homeland Security grant purchases, legal expenses, Highway projects and flood repair projects.

Actual revenues were more than overall final budgeted revenues by \$16,724, with the largest positive variance in intergovernmental revenues. Actual expenditures were less than overall final budgeted expenditures by \$119,087.

### **CAPITAL ASSETS AND LONG-TERM DEBT**

#### **Capital Assets**

The County's investment in capital assets for its governmental activities as of December 31, 2009, amounted to \$51,102,931 (net of accumulated depreciation). The total increase in the County's investment in capital assets for the current fiscal year was six percent. This was primarily due to completed highway projects added to infrastructure.

	Governmental Activities	
	2009	2008
Land	\$ 190,821	\$ 190,821
Construction in progress	2,985,505	2,898,150
Infrastructure	46,595,860	43,522,722
Buildings and improvements	398,974	386,920
Machinery and equipment	931,771	1,040,417
Total capital assets	\$ 51,102,931	\$ 48,039,030

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**

- Kittson County's unemployment rate was 6.1 percent as of December, 2009. This is lower than the statewide rate of 7.3 percent and the national average rate of 9.7 percent.
- Kittson County's population at July 1, 2008 was 4,462, a decrease of 817 since 2000. This ranks Kittson County 84<sup>th</sup> of 87 in the State of Minnesota.
- On December 15, 2009, the Kittson County set its 2010 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 Auditor/Treasurer, Kittson County Courthouse, 410 Fifth Street South, Suite 214, Hallock, MN 56728.

## **BASIC FINANCIAL STATEMENTS**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2009**

	<b>Primary Government Governmental Activities</b>	<b>Discretely Presented Component Unit</b>
<b><u>Assets</u></b>		
Cash and pooled deposits and investments	\$ 8,458,608	\$ 28,670
Fund deposits	40,000	-
Taxes receivable - prior	49,234	-
Special assessments receivable - prior	2,776	-
Accounts receivable	20,233	31,943
Accrued interest receivable	35,535	3,382
Due from other governments	967,366	17,415
Inventories	351,949	-
Restricted assets		
Cash and pooled deposits	-	402,736
Fund deposits	-	70,000
Special assessments receivable		
Current	-	127,515
Prior	-	4,560
Due from other governments	-	728,000
Pooled deposits reserved for asset replacement	-	717,866
Surcharge receivable reserved for debt repayment	-	6,380
Deferred debt issuance costs	-	12,857
Special assessments receivable - noncurrent	-	875,244
Capital assets		
Non-depreciable	3,176,326	369,697
Depreciable - net of accumulated depreciation	47,926,605	10,086,411
	<b>\$ 61,028,632</b>	<b>\$ 13,482,676</b>
<b><u>Liabilities</u></b>		
Accounts payable	\$ 184,075	\$ 9,079
Salaries payable	172,865	-
Accrued payroll taxes	-	3,908
Contracts payable	335,224	-
Due to other governments	47,472	3,072
Deferred revenue unearned	953,976	-
Customer deposits	-	10,800
Payable from restricted assets		
General obligation bonds - current	-	115,000
Revenue bonds - current	-	115,467
Long-term liabilities		
Due within one year	142,635	9,297
Due in more than one year	374,109	1,372,987
	<b>\$ 2,210,356</b>	<b>\$ 1,639,610</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

***EXHIBIT 1  
(Continued)***

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2009**

	<b>Primary Government Governmental Activities</b>	<b>Discretely Presented Component Unit</b>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	\$ 51,102,931	\$ 9,338,377
Restricted for		
General government	281,742	-
Public safety	432,768	-
Highways and streets	629,315	-
Conservation of natural resources	395,678	-
Equipment replacement	-	717,866
Debt service	-	472,736
Unrestricted	5,975,842	1,314,087
<b>Total Net Assets</b>	<b>\$ 58,818,276</b>	<b>\$ 11,843,066</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Expenses</u>	<u>Fees, Charges, Fines and Other</u>	<u>Program Revenues Operating Grants and Contributions</u>
<b><u>Functions/Programs</u></b>			
<b>Primary Government</b>			
<b>Governmental activities</b>			
General government	\$ 2,066,458	\$ 699,308	\$ 26,557
Public safety	1,287,040	22,151	236,015
Highways and streets	4,579,881	823,046	1,420,986
Sanitation	97,552	38,768	196,475
Human services	1,154,994	169,364	649,989
Health	36,568	-	30,750
Culture and recreation	202,515	-	13,791
Conservation of natural resources	309,987	152,537	401,976
Economic development	41,700	-	-
<b>Total Primary Government</b>	<b><u>\$ 9,776,695</u></b>	<b><u>\$ 1,905,174</u></b>	<b><u>\$ 2,976,539</u></b>
<b>Component Unit</b>			
North Kittson Rural Water System	\$ 667,510	\$ 406,342	\$ -

**General revenues**

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

**Total general revenues**

**Change in net assets**

**Net assets - January 1**

**Net assets - December 31**

**EXHIBIT 2**

Net (Expense) Revenue and Changes in Net Assets		
Capital Grants and Contributions	Primary Government Governmental Activities	Discretely Presented Component Unit
\$ -	\$ (1,340,593)	\$ -
-	(1,028,874)	-
3,553,283	1,217,434	-
-	137,691	-
-	(335,641)	-
-	(5,818)	-
-	(188,724)	-
-	244,526	-
-	(41,700)	-
<b>\$ 3,553,283</b>	<b>\$ (1,341,699)</b>	<b>\$ -</b>
<b>\$ 119,023</b>	<b>\$ -</b>	<b>\$ (142,145)</b>
	\$ 2,467,464	\$ -
	570,083	307
	165,305	-
	44,889	-
	231,712	14,352
	<b>\$ 3,479,453</b>	<b>\$ 14,659</b>
	<b>\$ 2,137,754</b>	<b>\$ (127,486)</b>
	<b>56,680,522</b>	<b>11,970,552</b>
	<b>\$ 58,818,276</b>	<b>\$ 11,843,066</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2009**

	General Fund	Special Revenue Funds		Other Governmental Funds (Statement 1)	Total Governmental Funds
		Road and Bridge	Social Services		
<b><u>Assets</u></b>					
Cash and pooled deposits and investments	\$ 5,813,166	\$ 101,670	\$ 1,653,913	\$ 889,859	\$ 8,458,608
Fund deposits	-	-	40,000	-	40,000
Taxes receivable - prior	33,519	6,488	8,870	357	49,234
Special assessments receivable - prior	-	-	-	2,776	2,776
Accounts receivable	591	6,850	12,792	-	20,233
Accrued interest receivable	35,495	-	40	-	35,535
Due from other funds	67	9,594	-	-	9,661
Due from other governments	281,869	553,735	32,202	99,560	967,366
Inventories	-	351,949	-	-	351,949
Advances to other funds	29,455	-	-	-	29,455
<b>Total Assets</b>	<b>\$ 6,194,162</b>	<b>\$ 1,030,286</b>	<b>\$ 1,747,817</b>	<b>\$ 992,552</b>	<b>\$ 9,964,817</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2009**

	General Fund	Special Revenue Funds		Other Governmental Funds (Statement 1)	Total Governmental Funds
		Road and Bridge	Social Services		
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 18,557	\$ 103,832	\$ 48,616	\$ 13,070	\$ 184,075
Salaries payable	93,308	52,988	26,569	-	172,865
Contracts payable	-	335,224	-	-	335,224
Due to other funds	-	-	-	9,661	9,661
Due to other governments	33,720	2,012	8,339	3,401	47,472
Deferred revenue - unavailable	208,189	476,403	5,460	96,149	786,201
Deferred revenue - unearned	-	953,976	-	-	953,976
Advances from other funds	-	-	-	29,455	29,455
<b>Total Liabilities</b>	<b>\$ 353,774</b>	<b>\$ 1,924,435</b>	<b>\$ 88,984</b>	<b>\$ 151,736</b>	<b>\$ 2,518,929</b>
<b>Fund Balances</b>					
Reserved for					
Advances to other funds	\$ 29,455	\$ -	\$ -	\$ -	\$ 29,455
Corrections supervision	6,234	-	-	-	6,234
County State Aid Highway Allotment	-	621,119	-	-	621,119
DWI assessment	3,167	-	-	-	3,167
Enhanced 911	269,832	-	-	-	269,832
Handgun permits	5,979	-	-	-	5,979
Help America Vote Act	169,047	-	-	-	169,047
Inventories	-	351,949	-	-	351,949
Law library	12,513	-	-	-	12,513
Missing heirs	1,067	-	-	-	1,067
Pit restoration	-	74,820	-	-	74,820
Probation	6,143	-	-	-	6,143
Public assistance	-	-	-	264,316	264,316
Recorder's equipment	38,164	-	-	-	38,164
Sheriff's forfeited property	2,991	-	-	-	2,991
Technology	60,951	-	-	-	60,951
Vehicle seizures	2,896	-	-	-	2,896
Water planning	40,819	-	-	-	40,819
Unreserved					
Designated for					
Buildings	759,000	-	200,000	-	959,000
Cash flows	1,398,023	-	490,740	-	1,888,763
Data processing	333,000	-	100,000	-	433,000
E-911 road signs	189,550	-	-	-	189,550
Equipment	150,000	-	30,000	-	180,000
Geographic Information System	200,000	-	-	-	200,000
Insurance	600,000	-	-	-	600,000
Landfill	271,120	-	-	-	271,120
Local Emergency Planning Commission	10,171	-	-	-	10,171
Undesignated	1,280,266	(1,942,037)	838,093	-	176,322
Unreserved, reported in nonmajor Special revenue funds					
	-	-	-	576,500	576,500
<b>Total Fund Balances</b>	<b>\$ 5,840,388</b>	<b>\$ (894,149)</b>	<b>\$ 1,658,833</b>	<b>\$ 840,816</b>	<b>\$ 7,445,888</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 6,194,162</b>	<b>\$ 1,030,286</b>	<b>\$ 1,747,817</b>	<b>\$ 992,552</b>	<b>\$ 9,964,817</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

***EXHIBIT 4***

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2009**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$ 7,445,888</b>
Amounts reported for governmental activities in the Statement of Net Assets 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.	51,102,931
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	786,201
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:	
Other post employment benefits	(149,027)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(367,717)</u>
<b>Net assets of governmental activities (Exhibit 1)</b>	<b><u><u>\$ 58,818,276</u></u></b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 5**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	General Fund	Special Revenue Funds		Other Government Funds (Statement 2)	Total Governmental Funds
		Road and Bridge	Social Services		
<b>Revenues</b>					
Taxes	\$ 1,686,866	\$ 332,731	\$ 445,186	\$ 27,351	\$ 2,492,134
Special assessments	-	-	-	138,724	138,724
Licenses and permits	5,525	-	-	-	5,525
Intergovernmental	1,394,470	5,566,947	753,443	478,657	8,193,517
Charges for services	206,531	714,752	148,092	5,759	1,075,134
Fines and forfeitures	5,105	-	-	-	5,105
Investment earnings	230,936	-	776	-	231,712
Land and timber sales	-	-	-	6,407	6,407
Miscellaneous	111,709	72,719	21,272	478,074	683,774
<b>Total Revenues</b>	<b>\$ 3,641,142</b>	<b>\$ 6,687,149</b>	<b>\$ 1,368,769</b>	<b>\$ 1,134,972</b>	<b>\$ 12,832,032</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 1,496,502	\$ -	\$ -	\$ 473,825	\$ 1,970,327
Public safety	1,176,827	-	-	4,782	1,181,609
Highways and streets	-	7,429,372	-	164,070	7,593,442
Sanitation	105,742	-	-	-	105,742
Human services	-	-	1,149,137	-	1,149,137
Health	36,568	-	-	-	36,568
Culture and recreation	202,515	-	-	-	202,515
Conservation of natural resources	211,080	-	-	93,724	304,804
Economic development	41,700	-	-	-	41,700
<b>Total Current</b>	<b>\$ 3,270,934</b>	<b>\$ 7,429,372</b>	<b>\$ 1,149,137</b>	<b>\$ 736,401</b>	<b>\$ 12,585,844</b>
<b>Debt Service</b>					
Interest	\$ -	\$ -	\$ -	\$ 5,109	\$ 5,109
<b>Capital Outlay</b>					
General government	\$ 57,036	\$ -	\$ -	\$ -	\$ 57,036
Public safety	49,466	-	-	-	49,466
Highways and streets	-	179,466	-	-	179,466
<b>Total Capital Outlay</b>	<b>\$ 106,502</b>	<b>\$ 179,466</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 285,968</b>
<b>Total Expenditures</b>	<b>\$ 3,377,436</b>	<b>\$ 7,608,838</b>	<b>\$ 1,149,137</b>	<b>\$ 741,510</b>	<b>\$ 12,876,921</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 263,706</b>	<b>\$ (921,689)</b>	<b>\$ 219,632</b>	<b>\$ 393,462</b>	<b>\$ (44,889)</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 5  
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	General Fund	Special Revenue Funds		Other Government Funds (Statement 2)	Total Governmental Funds
		Road and Bridge	Social Services		
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ 1,399	\$ 12,653	\$ -	\$ 41,088	\$ 55,140
Transfers out	(53,741)	-	-	(1,399)	(55,140)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (52,342)</b>	<b>\$ 12,653</b>	<b>\$ -</b>	<b>\$ 39,689</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ 211,364</b>	<b>\$ (909,036)</b>	<b>\$ 219,632</b>	<b>\$ 433,151</b>	<b>\$ (44,889)</b>
<b>Fund Balance - January 1</b>	<b>5,629,024</b>	<b>(96,457)</b>	<b>1,439,201</b>	<b>407,665</b>	<b>7,379,433</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>111,344</b>	<b>-</b>	<b>-</b>	<b>111,344</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,840,388</b>	<b>\$ (894,149)</b>	<b>\$ 1,658,833</b>	<b>\$ 840,816</b>	<b>\$ 7,445,888</b>

**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, 2009**

<b>Net change in fund balances - total governmental funds (Exhibit 5)</b>	<b>\$</b>	<b>(44,889)</b>
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> <p>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.</p>		
Expenditures for general capital assets and infrastructure	\$ 4,603,088	
Current year depreciation	<u>(1,539,187)</u>	3,063,901
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.</p>		
Change in deferred revenue		(917,583)
<p>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.</p>		
Change in compensated absences	\$ 11,424	
Change in other post employment benefits	(86,443)	
Change in inventories	<u>111,344</u>	<u>36,325</u>
<b>Change in net assets of governmental activities (Exhibit 2)</b>	<b>\$</b>	<b><u>2,137,754</u></b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 7**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2009**

	<b>Mar-Kit Landfill Investment Trust</b>	<b>Agency (Statement 3)</b>
<b><u>Assets</u></b>		
Cash and pooled deposits and investments	\$ -	\$ 1,827,605
Fund deposits and investments	1,222,928	-
Accrued interest receivable	1,919	-
	<b>\$ 1,224,847</b>	<b>\$ 1,827,605</b>
<b><u>Liabilities</u></b>		
Accounts payable	\$ -	\$ 102,936
Accrued interest payable	1,919	-
Due to other governments	-	1,724,669
	<b>\$ 1,919</b>	<b>\$ 1,827,605</b>
<b><u>Net Assets</u></b>		
Net assets, held in trust for pool participants	<b>\$ 1,222,928</b>	

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

***EXHIBIT 8***

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
MAR-KIT LANDFILL INVESTMENT TRUST FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

<u><b>Additions</b></u>	
Investment earnings	\$ 26,268
<u><b>Deductions</b></u>	
Distributions to participants	<u>22,018</u>
<b>Change in net assets</b>	<b>\$ 4,250</b>
<b>Net Assets--January 1</b>	<u><b>1,218,678</b></u>
<b>Net Assets--December 31</b>	<u><u><b>\$ 1,222,928</b></u></u>

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

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). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. 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 V, 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 assets 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 assets, 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 and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. 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.

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 all financial resources of the general government, except those required to be accounted for in another fund.

The Road and Bridge Special Revenue Fund is used to account for 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 designated for highway purposes, and charges for services.

**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 financial services provided to persons receiving public assistance. Financing is provided by annual tax levy and intergovernmental revenues designated for social services purposes.

Additionally, the County reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

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.

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.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Pooled 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 deposits and investments are reported at their fair value at December 31, 2009, based on market prices. Pursuant to Minnesota Statute, § 385.07, investment earnings on cash and pooled deposits and 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 2009 were \$230,936. Total investment earnings for 2009 were \$231,712.

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 reserve 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 reserve to indicate that they do not constitute available spendable resources.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

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

4. Restricted Assets

Certain funds of the County are classified as restricted on the statement of net assets 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.

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	30
Machinery and equipment	5-10

6. Compensated Absences

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.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

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

7. Deferred Revenue

Governmental funds and the government-wide financial statements defer revenue recognition in connection with resources that have been received, but not yet earned. Governmental funds also defer revenue recognition in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

8. Net Assets and Fund Balance

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

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

II. Stewardship, Compliance, and Accountability

A. Deficit Fund Balances

At December 31, 2009, the Road and Bridge Special Revenue Fund had a deficit unreserved, undesignated fund balance of \$1,942,037, with a deficit total fund balance of \$894,149. This deficit will be eliminated with future levies.

At December 31, 2009, the Forfeited Tax Sale Special Revenue Fund had a deficit unreserved, undesignated fund balance of \$810. This deficit was eliminated with a land sale in April, 2010.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

II. Stewardship, Compliance, and Accountability (Continued)

B. Individual Fund Deficits of Equity Accounts

Ditch Special Revenue Fund

Four 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 unreserved, undesignated fund balances as of December 31, 2009:

Account balance	\$	662,775
Account deficit		<u>(28,256)</u>
 Fund Balance	 \$	 <u><u>634,519</u></u>

C. Land Management

The County manages approximately 408 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.

III. Detailed Notes on All Funds

A. Assets

1. Cash and Pooled Deposits and Investments

Reconciliations of the County's total cash and pooled deposits and investments to the basic financial statements, as of December 31, 2009, are reported as follows:

	<u>Primary Government</u>	<u>Discretely Presented Component Unit</u>
Government-wide statement of net assets		
Cash and pooled deposits and investments	\$ 8,458,608	\$ 28,670
Fund deposits	40,000	-
Restricted cash and pooled deposits	-	402,736
Restricted fund deposits	-	70,000
Pooled deposits reserved for asset replacement	-	717,866
Statement of fiduciary net assets		
Cash and pooled deposits and investments	1,827,605	-
Fund deposits and investments	<u>1,222,928</u>	<u>-</u>
 Total cash and investments	 <u><u>\$ 11,549,141</u></u>	 <u><u>\$ 1,219,272</u></u>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Cash and Pooled Deposits and Investments (Continued)

	Primary Government	Discretely Presented Component Unit
Deposits	\$ 3,977,768	\$ 1,219,272
Cash on hand	1,800	-
Investments	7,569,573	-
Total deposits, cash on hand, and investments	\$ 11,549,141	\$ 1,219,272

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, 2009, the County’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;

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Cash and Pooled Deposits and Investments

Investments (Continued)

- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. 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, 2009, the County had the following investments and maturities:

	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>5+ Years</u>
Federal Home Loan Bank	\$ 1,394,181	\$ -	\$ -	\$ 1,394,181
Federal Home Loan Mortgage Corporation	717,335	-	717,335	-
Federal National Mortgage Association	299,580	-	100,406	199,174
Negotiable Certificates of Deposit	3,882,532	2,107,859	1,774,673	-
Money Market	1,205,614	1,205,614	-	-
Tennessee Valley Authority Power Bonds	<u>70,331</u>	<u>-</u>	<u>-</u>	<u>70,331</u>
Total Investments	<u>\$ 7,569,573</u>	<u>\$ 3,313,473</u>	<u>\$ 2,592,414</u>	<u>\$ 1,663,686</u>
	100%	43.8%	34.2%	22.0%

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Cash and Pooled Deposits and Investments (Continued)

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, 2009, is as follows:

	S & P Rating	Fair Value
Federal Home Loan Bank	AAA	\$ 1,394,181
Federal Home Loan Mortgage Corporation	AAA	717,335
Federal National Mortgage Association	AAA	299,580
Negotiable Certificates of Deposit	N/A	3,882,532
Money Market	N/A	1,205,614
Tennessee Valley Authority Power Bonds	N/R	70,331
		\$ 7,569,573

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. At December 31, 2009, none of the County's investments were subject to custodial credit risk.

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 40 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:

Issuer	Reported Amount	
Federal Home Loan Bank	\$ 1,394,181	18%
Federal Home Loan Mortgage Corporation	717,335	9%

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2009, for the County's governmental activities, including any applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>
Taxes	\$ 49,234
Special assessments	2,776
Accounts	20,233
Accrued interest	35,535
Due from other governments	967,366
Total	\$ 1,075,144

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

Receivables as of December 31, 2009, for the discretely presented component unit, including any applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Accounts	\$ 31,943	\$ -
Accrued interest	3,382	-
Due from other governments	17,415	-
Restricted		
Special assessments	1,007,319	875,244
Due from other governments	728,000	-
Surcharge - reserved for debt repayment	6,380	-
Total	\$ 1,794,439	\$ 875,244

3. Capital Assets

Capital asset activity for the primary government for the year ended December 31, 2009, was as follows:

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 190,821	\$ -	\$ -	\$ 190,821
Construction in progress	2,898,150	4,317,120	4,229,765	2,985,505
<b>Total capital assets not depreciated</b>	<b>\$ 3,088,971</b>	<b>\$ 4,317,120</b>	<b>\$ 4,229,765</b>	<b>\$ 3,176,326</b>
Capital assets being depreciated				
Infrastructure	\$ 56,649,017	\$ 4,229,765	\$ -	\$ 60,878,782
Buildings and improvements	2,078,331	57,036	-	2,135,367
Machinery and equipment	4,016,998	228,932	184,228	4,061,702
<b>Total capital assets being depreciated</b>	<b>\$ 62,744,346</b>	<b>\$ 4,515,733</b>	<b>\$ 184,228</b>	<b>\$ 67,075,851</b>
Less: accumulated depreciation for				
Infrastructure	\$ 13,126,295	\$ 1,156,627	\$ -	\$ 14,282,922
Buildings and improvements	1,691,411	44,982	-	1,736,393
Machinery and equipment	2,976,581	337,578	184,228	3,129,931
<b>Total accumulated depreciation</b>	<b>\$ 17,794,287</b>	<b>\$ 1,539,187</b>	<b>\$ 184,228</b>	<b>\$ 19,149,246</b>
<b>Total capital assets, depreciated, net</b>	<b>\$ 44,950,059</b>	<b>\$ 2,976,546</b>	<b>\$ -</b>	<b>\$ 47,926,605</b>
Primary Government Capital Assets, Net	<u>\$ 48,039,030</u>	<u>\$ 7,293,666</u>	<u>\$ 4,229,765</u>	<u>\$ 51,102,931</u>

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

General government	\$ 73,730
Public safety	72,786
Highways and streets, including depreciation of infrastructure assets	1,386,353
Human services	6,318
<b>Total Depreciation Expense</b>	<u>\$ 1,539,187</u>

Capital asset activity for the discretely presented component unit for the year ended December 31, 2009 was as follows:

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 108,045	\$ -	\$ -	\$ 108,045
Construction in progress	29,575	232,077	-	261,652
<b>Total capital assets not depreciated</b>	<b>\$ 137,620</b>	<b>\$ 232,077</b>	<b>\$ -</b>	<b>\$ 369,697</b>
Capital assets being depreciated				
Distribution system	\$ 10,002,723	\$ -	\$ -	\$ 10,002,723
Buildings and pumps	3,717,258	-	-	3,717,258
Machinery and equipment	150,402	-	-	150,402
Tower reconditioning	285,748	-	-	285,748
<b>Total capital assets being depreciated</b>	<b>\$ 14,156,131</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 14,156,131</b>
Less: accumulated depreciation for				
Distribution system	\$ 2,300,750	\$ 115,963	\$ -	\$ 2,416,713
Buildings and pumps	1,376,773	82,181	-	1,458,954
Machinery and equipment	105,329	11,555	-	116,884
Tower reconditioning	63,800	13,369	-	77,169
<b>Total accumulated depreciation</b>	<b>\$ 3,846,652</b>	<b>\$ 223,068</b>	<b>\$ -</b>	<b>\$ 4,069,720</b>
<b>Total capital assets, depreciated, net</b>	<b>\$ 10,309,479</b>	<b>\$ (223,068)</b>	<b>\$ -</b>	<b>\$ 10,086,411</b>
Component Unit				
Capital Assets, Net	<u>\$ 10,447,099</u>	<u>\$ 9,009</u>	<u>\$ -</u>	<u>\$ 10,456,108</u>

\$223,068 of depreciation expense was charged to the functions of the Rural Water System.

Construction Commitments

The County has active construction commitments as of December 31, 2009. The commitments include the following:

	Spent-to-Date	Remaining Commitment
Governmental activities		
Highways and streets	\$ 2,881,983	\$ 981,719

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2009, is as follows:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
General Fund	Other Governmental	\$ 67	Charges for services
Road and Bridge Special Revenue Fund	Other Governmental	<u>9,594</u>	Charges for services
Total Due To/From Other Funds		<u><u>\$ 9,661</u></u>	

Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
General Fund	Other Governmental	<u><u>\$ 29,455</u></u>	Cash flow

This advance will be paid back as funds become available.

Interfund Transfers

Interfund transfers for the year ended December 31, 2009, consisted of the following operating transfer:

Transfer to General Fund from Other Governmental	\$ 1,399	Forfeited tax sale proceeds
Transfer to Road and Bridge Special Revenue Fund from General Fund	12,653	Reclassification of funds
Transfer to Other Governmental from General Fund	<u>41,088</u>	Cash flow
Total Interfund Transfers	<u><u>\$ 55,140</u></u>	

C. Liabilities

Deferred Revenue

Governmental Funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer recognition in connection with resources that have been received, but not yet earned. As of December 31, 2009, Governmental Funds reported the following various components of deferred revenues:

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Deferred Revenue (Continued)

	<u>Deferred Unavailable</u>	<u>Deferred Unearned</u>
Taxes	\$ 30,817	\$ -
Special Assessments	1,894	-
Grants	450,994	-
Contracts	<u>302,496</u>	<u>953,976</u>
Total Deferred Revenue	<u>\$ 786,201</u>	<u>\$ 953,976</u>

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.

Unused compensatory time, accumulated vacation and vested sick leave are paid to employees upon termination. Unvested sick leave, approximately \$392,369 at December 31, 2009, is available to employees in the event of illness-related absences and is not paid to them at termination.

Operating Lease

The County leased a postage meter under a noncancelable operating lease. The total expenditures for the year ended December 31, 2009 were \$2,227. This lease was paid off in 2009.

Changes in Long-Term Liabilities

Long-term liability for activity for the governmental activities for the year ended December 31, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Net OPEB Payable	\$ 62,584	\$ 105,438	\$ 18,995	\$ 149,027	\$ -
Compensated Absences	<u>379,141</u>	<u>219,282</u>	<u>230,706</u>	<u>367,717</u>	<u>142,635</u>
Long-Term Liabilities	<u>\$ 441,725</u>	<u>\$ 324,720</u>	<u>\$ 249,701</u>	<u>\$ 516,744</u>	<u>\$ 142,635</u>

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities (Continued)

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:

\$765,000 General Obligation Refunding Bonds of 1998 – dated September 1, 1998, due in installments of \$40,000 to \$70,000 through January 1, 2017, with net interest rate of 4.9395 percent. This debt was paid off with General Obligation Refunding Bonds of 2009.

\$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 issue 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 \$7,841.

\$ 372,159

\$1,475,000 General Obligation Refunding Bonds of 2004 – dated April 28, 2004 due in installments of \$65,000 to \$110,000 through January 1, 2022, with 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 issue 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 \$3,465.

1,091,535

\$813,000 General Obligation Revenue Bonds of 2004 – dated March 15, 2004, with a net interest rate of 4.5 percent. This debt is for construction of the Rural Water System and will be paid off in 2010.

115,467

Total Payable from North Kittson Rural Water System Component Unit

\$ 1,579,161

Debt Service Requirements

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt – Discretely Presented Component Unit

Debt Service Requirements (Continued)

Year Ending December 31	General Obligation Refunding Bonds of 2009		General Obligation Refunding Bonds of 2004		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 50,000	\$ 9,236	\$ 65,000	\$ 48,082	\$ 115,000	\$ 57,318
2011	50,000	8,610	70,000	45,970	120,000	54,580
2012	55,000	7,610	70,000	43,520	125,000	51,130
2013	50,000	6,510	70,000	40,895	120,000	47,405
2014	55,000	5,210	75,000	38,095	130,000	43,305
2015-2019	120,000	5,827	430,000	138,814	550,000	144,641
2020-2022	-	-	315,000	31,800	315,000	31,800
	\$ 380,000	\$ 43,003	\$ 1,095,000	\$ 387,176	\$ 1,475,000	\$ 430,179
Less: Bond discount	(7,841)	-	(3,465)	-	(11,306)	-
Total	\$ 372,159	\$ 43,003	\$ 1,091,535	\$ 387,176	\$ 1,463,694	\$ 430,179

Changes in Long-Term Liabilities

Long-term liability activity for the discretely presented component unit for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Refunding Bonds	\$ 1,570,000	\$ 425,000	\$ 520,000	\$ 1,475,000	\$ 115,000
Less: Bond discount	(10,335)	-	971	(11,306)	-
G.O. Revenue Bonds of 2004	150,440	-	34,973	115,467	115,467
OPEB Liability	-	1,254	-	1,254	-
Compensated Absences	36,299	18,143	22,106	32,336	9,297
Long-Term Liabilities	\$ 1,746,404	\$ 444,397	\$ 578,050	\$ 1,612,751	\$ 239,764

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. 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.

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.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Defined Benefit Plans

Plan Description (Continued)

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](http://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 are required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.40 percent of their annual covered salary in 2009. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2009 and 2010:

	2009	2010
Public Employees Retirement Fund		
Basic Plan Members	11.78%	11.78%
Coordinated Plan Members	6.75	7.00
Public Employees Police and Fire Fund	14.10	14.10
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2009, 2008, and 2007, 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
2009	\$ 131,807	\$ 56,461	\$ 18,130
2008	125,899	39,016	16,994
2007	119,467	33,190	15,476

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits (Continued)

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.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2009, were:

	Employee	Employer
Contribution amount	\$ 6,763	\$ 6,763
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.

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 2009, there were approximately 64 participants in the plan, including four retirees.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits (OPEB) (Continued)

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.

Annual Required Contribution	\$	105,134
Interest on net OPEB obligation		1,783
Adjustments to Annual Required Contribution		<u>(1,479)</u>
Annual OPEB cost (expense)	\$	105,438
Contributions made		<u>(18,995)</u>
Increase in net OPEB obligation	\$	86,443
Net OPEB Obligation - January 1, 2009		<u>62,584</u>
Net OPEB Obligation - December 31, 2009	<u>\$</u>	<u>149,027</u>

The County's annual OPEB cost for December 31, 2009, was \$105,438. The percentage of annual OPEB cost contributed to the plan was 18 percent, and the net OPEB obligation for 2009 was \$86,443. The required three-year trend information is not available at this time based on implementation in 2008.

Fund Status and Funding Progress

As of December 31, 2009, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial liability for benefits was \$835,595, and the actuarial value of assets was zero, resulting in an unfunded actuarial liability (UAAL) of \$835,595. The covered payroll (annual payroll of active employees covered by the plan) was \$3,036,112, and the ratio of the UAAL to the covered payroll was 27.5 percent.

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.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits (OPEB) (Continued)

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.

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 present 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 6.5 percent initially, increased to a rate of 7.3 percent after six years, was used.

*Health insurance premiums* – 2009 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 2.85 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 2.85 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, 2009, was twenty-eight years.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits (Continued)

Other Post-Employment Benefits (OPEB) – Discretely Presented Component Unit

Beginning in 2009, the Water System implemented Governmental Accounting Standards Board (GASB), Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*.

This statement required the Water System to calculate and record a net other post-employment benefit (OPEB) obligation at December 31, 2009. The net OPEB obligation is, in general, the cumulative difference between the actuarial required contribution and the actual contributions since January 1, 2009.

Plan Description

The Water System provides a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The Water System provides for retirees as required by Minnesota Statute § 471.61, subdivision 2b.

Funding Policy

The contribution requirements of the plan and the Water System are established and may be amended by the Board of Directors. 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. For 2009, there were approximately 2 participants in the plan, with no retirees.

Annual OPEB Cost and Net OPEB Obligation

The Water System's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (ARC). The Water System 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 Water System's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Water System's net OPEB obligation to the retiree health plan.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits (OPEB) – Discretely Presented Component Unit

Annual OPEB Cost and Net OPEB Obligation (Continued)

Annual Required Contribution	\$	1,254
Interest on net OPEB obligation		-
Adjustments to Annual Required Contribution		-
		-
Annual OPEB cost (expense)	\$	1,254
Contributions made		-
		-
Increase in net OPEB obligation	\$	1,254
Net OPEB Obligation - January 1, 2009		-
		-
Net OPEB Obligation - December 31, 2009	\$	1,254
		1,254

The Water System’s annual OPEB cost for December 31, 2009, was \$1,254. The percentage of annual OPEB cost contributed to the plan was zero percent, and the net OPEB obligation for 2009 was \$1,254. Trend information for the previous two years is not available at this time based on implementation in 2009.

Fund Status and Funding Progress

As of December 31, 2009, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial liability for benefits was \$15,526, and the actuarial value of assets was zero, resulting in an unfunded actuarial liability (UAAL) of \$15,526. The covered payroll (annual payroll of active employees covered by the plan) was \$105,186, and the ratio of the UAAL to the covered payroll was 15 percent.

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.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits (OPEB) – Discretely Presented Component Unit

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 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 6.5 percent initially, increased to a rate of 7.3 percent after six years, was used.

*Health insurance premiums* – 2009 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 1.74 percent investment rate of return (net of investment expense), which is the Water System’s implicit rate of return.

*Payroll growth rate* – The expected long-term payroll growth rate was based on the Water System’s projected payroll growth rate.

Based on the historical and expected returns of the Water System’s short-term investment portfolio, a discount rate of 1.74 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, 2009, was twenty-nine years.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

V. 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 are due in annual installments of \$65,000 to \$110,000 through January 1, 2022, with a net interest rate of 4.387 percent. As of December 31, 2009, the outstanding balance of this debt is \$1,091,535, net of bond discount, for which the Water System has a commitment of \$735,216 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 \$430,000 per claim in 2009 and \$450,000 per claim in 2010. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

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

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.

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.

KaMaR Solid Waste

KaMaR Solid Waste was formed in 1990 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, effective August 1971, and includes Kittson, Marshall, and Roseau Counties. Red Lake County joined in January, 2005. The purpose of KaMaR is to provide recycling and other solid waste services to member counties. Control is vested in the KaMaR Solid Waste Joint Powers Board which is composed of three members from each county board, with each member county having one vote, as provided in KaMaR's bylaws.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures

KaMaR Solid Waste (Continued)

Responsibility for budgeted expenditures is shared, with the first 50 percent divided equally among the four counties, and the remaining 50 percent divided on a population-based ratio, with an overall percentage division of 20 percent for Kittson County, 27 percent for Marshall County, 18 percent for Red Lake County, and 35 percent for Roseau County. In the event of dissolution of the KaMaR Solid Waste Joint Powers Board, the net assets of KaMaR at that time shall be divided among the member counties in the same proportion as their respective financial responsibilities.

KaMaR has no long-term debt. Financing is provided by state grants and charges for services. Kittson County contributed \$44,082 to KaMaR for the year ended December 31, 2009. Kittson County, in an agent capacity, reports the cash transactions of KaMaR as an agency fund on its financial statements. Complete financial information can be obtained from the Kittson County Auditor/Treasurer's Office or the KaMaR office, Karlstad, Minnesota 56732.

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, 2009. Complete financial information can be obtained from the Kittson County Auditor/Treasurer's Office, P.O. Box 848, Hallock, Minnesota 56728.

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.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Mar-Kit Landfill (Continued)

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.

The Mar-Kit Landfill has long-term debt of \$106,667. 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.

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, 2009. Complete financial information can be obtained from Greater Northwest Emergency Medical Services, 2301 Johanneson Avenue NW, Suite 103, Bemidji, Minnesota 56601.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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.

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, 2009. 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 8<sup>th</sup> Avenue SE, Suite 260, Baudette, MN 56623.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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.

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Kittson County contributed \$3,986 to the Waste Management Group for the year ended December 31, 2009. 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.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northwestern Minnesota Juvenile Center (Continued)

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.

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 2009. Complete financial information can be obtained from the Lake of the Woods County Auditor's Office, P.O. Box 808, Baudette, Minnesota 56623.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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

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-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.

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.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

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

F. Jointly-Governed Organizations

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 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 \$56,994 to the Library for the year ended December 31, 2009.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations (Continued)

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.

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, and Marshall Counties. 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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,683,225	\$ 1,683,225	\$ 1,686,866	\$ 3,641
Licenses and permits	2,215	4,700	5,525	825
Intergovernmental	1,011,619	1,330,043	1,394,470	64,427
Charges for services	206,600	212,600	206,531	(6,069)
Fines and forfeitures	6,000	4,700	5,105	405
Investment earnings	306,676	282,600	230,936	(51,664)
Miscellaneous	72,766	106,550	111,709	5,159
<b>Total Revenues</b>	<b>\$ 3,289,101</b>	<b>\$ 3,624,418</b>	<b>\$ 3,641,142</b>	<b>\$ 16,724</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 171,011	\$ 224,811	\$ 218,566	\$ 6,245
District court	11,200	11,200	8,919	2,281
Law library	8,500	8,500	3,699	4,801
County auditor/treasurer	401,195	401,195	380,462	20,733
County assessor	204,562	223,494	219,523	3,971
Elections	28,056	925	871	54
Professional services	24,430	24,430	26,550	(2,120)
Data processing	163,503	126,665	116,542	10,123
Attorney	67,159	64,459	63,293	1,166
Recorder	124,116	131,216	127,860	3,356
Planning and zoning	15,600	15,600	15,600	-
Buildings and grounds	231,675	209,805	195,308	14,497
GIS/LIS	-	12,500	12,520	(20)
Veterans service officer	25,429	28,779	28,224	555
Insurance	55,000	55,000	54,037	963
Other general government	44,585	28,965	24,528	4,437
<b>Total general government</b>	<b>\$ 1,576,021</b>	<b>\$ 1,567,544</b>	<b>\$ 1,496,502</b>	<b>\$ 71,042</b>

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 1  
(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 598,601	\$ 619,442	\$ 569,860	\$ 49,582
Boat and water safety	500	500	5,780	(5,280)
Community corrections	168,409	175,465	181,888	(6,423)
Coroner	8,000	8,000	4,146	3,854
Enhanced 911	32,054	18,154	21,781	(3,627)
Emergency management	42,307	87,482	87,058	424
Fire protection	500	500	500	-
Local Emergency Planning Commission	4,226	-	-	-
Operation Stonegarden	-	191,605	200,295	(8,690)
Probation and parole	26,000	28,000	41,346	(13,346)
Safety committee	3,447	3,447	3,617	(170)
Sentence to serve	-	-	11,000	(11,000)
Transmission tower	3,690	3,690	2,952	738
Victim assistance	47,314	47,888	46,604	1,284
<b>Total public safety</b>	<b>\$ 935,048</b>	<b>\$ 1,184,173</b>	<b>\$ 1,176,827</b>	<b>\$ 7,346</b>
<b>Sanitation</b>				
Recycling	\$ 72,327	\$ 83,627	\$ 81,441	\$ 2,186
Solid waste	21,847	24,787	24,301	486
<b>Total sanitation</b>	<b>\$ 94,174</b>	<b>\$ 108,414</b>	<b>\$ 105,742</b>	<b>\$ 2,672</b>
<b>Health</b>				
Ambulance	\$ 29,068	\$ 29,068	\$ 29,068	\$ -
Hospice	7,500	7,500	7,500	-
<b>Total health</b>	<b>\$ 36,568</b>	<b>\$ 36,568</b>	<b>\$ 36,568</b>	<b>\$ -</b>
<b>Culture and recreation</b>				
Historical society	\$ 50,395	\$ 50,395	\$ 50,395	\$ -
Regional library	56,994	56,994	56,994	-
Snowmobile and ski trails	87,000	94,600	94,626	(26)
Veterans organizations	500	500	500	-
<b>Total culture and recreation</b>	<b>\$ 194,889</b>	<b>\$ 202,489</b>	<b>\$ 202,515</b>	<b>\$ (26)</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 1  
(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Conservation of natural resources</b>				
Agricultural inspection	\$ 9,500	\$ 9,500	\$ 9,501	\$ (1)
Agricultural society	22,500	22,500	22,500	-
County extension	105,287	107,337	100,862	6,475
Predator and weed control	3,000	3,000	2,142	858
Soil and water conservation	95,431	68,178	76,075	(7,897)
<b>Total conservation of natural resources</b>	<b>\$ 235,718</b>	<b>\$ 210,515</b>	<b>\$ 211,080</b>	<b>\$ (565)</b>
<b>Economic development</b>				
Kittson Office of Economic Development	\$ 40,000	\$ 40,000	\$ 40,000	\$ -
Minnesota Red River Valley Development Authority	1,200	1,200	1,200	-
Other economic development	500	500	500	-
<b>Total economic development</b>	<b>\$ 41,700</b>	<b>\$ 41,700</b>	<b>\$ 41,700</b>	<b>\$ -</b>
<b>Total Current Expenditures</b>	<b>\$ 3,114,118</b>	<b>\$ 3,351,403</b>	<b>\$ 3,270,934</b>	<b>\$ 80,469</b>
<b>Capital outlay</b>				
General government	\$ 46,500	\$ 10,500	\$ 57,036	\$ (46,536)
Public safety	98,020	134,620	49,466	85,154
<b>Total capital outlay</b>	<b>\$ 144,520</b>	<b>\$ 145,120</b>	<b>\$ 106,502</b>	<b>\$ 38,618</b>
<b>Total Expenditures</b>	<b>\$ 3,258,638</b>	<b>\$ 3,496,523</b>	<b>\$ 3,377,436</b>	<b>\$ 119,087</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 30,463</b>	<b>\$ 127,895</b>	<b>\$ 263,706</b>	<b>\$ 135,811</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ -	\$ 1,399	\$ 1,399
Transfers out	-	-	(53,741)	(53,741)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (52,342)</b>	<b>\$ (52,342)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 30,463</b>	<b>\$ 127,895</b>	<b>\$ 211,364</b>	<b>\$ 83,469</b>
<b>Fund Balance - January 1</b>	<b>5,629,024</b>	<b>5,629,024</b>	<b>5,629,024</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,659,487</b>	<b>\$ 5,756,919</b>	<b>\$ 5,840,388</b>	<b>\$ 83,469</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 312,369	\$ 329,869	\$ 332,731	\$ 2,862
Intergovernmental	5,211,976	5,963,506	5,566,947	(396,559)
Charges for services	452,000	523,875	714,752	190,877
Miscellaneous	68,500	211,000	72,719	(138,281)
<b>Total Revenues</b>	<b>\$ 6,044,845</b>	<b>\$ 7,028,250</b>	<b>\$ 6,687,149</b>	<b>\$ (341,101)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 464,168	\$ 516,909	\$ 450,172	\$ 66,737
Engineering	399,492	504,679	570,312	(65,633)
Maintenance	1,068,084	1,351,338	1,357,152	(5,814)
Construction	3,315,000	4,069,000	4,277,328	(208,328)
Equipment maintenance and shop	596,101	426,388	410,768	15,620
Township roads	-	-	363,640	(363,640)
<b>Total current</b>	<b>\$ 5,842,845</b>	<b>\$ 6,868,314</b>	<b>\$ 7,429,372</b>	<b>\$ (561,058)</b>
<b>Capital outlay</b>				
Highways and streets	202,000	202,000	179,466	22,534
<b>Total Expenditures</b>	<b>\$ 6,044,845</b>	<b>\$ 7,070,314</b>	<b>\$ 7,608,838</b>	<b>\$ (538,524)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ (42,064)</b>	<b>\$ (921,689)</b>	<b>\$ (879,625)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	12,653	12,653
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ (42,064)</b>	<b>\$ (909,036)</b>	<b>\$ (866,972)</b>
<b>Fund Balance - January 1</b>	<b>(96,457)</b>	<b>(96,457)</b>	<b>(96,457)</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>111,344</b>	<b>111,344</b>
<b>Fund Balance - December 31</b>	<b>\$ (96,457)</b>	<b>\$ (138,521)</b>	<b>\$ (894,149)</b>	<b>\$ (755,628)</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 444,784	\$ 444,784	\$ 445,186	\$ 402
Intergovernmental	591,205	752,469	753,443	974
Charges for services	93,889	101,889	148,092	46,203
Investment earnings	1,000	1,000	776	(224)
Miscellaneous	63,970	74,770	21,272	(53,498)
<b>Total Revenues</b>	<b>\$ 1,194,848</b>	<b>\$ 1,374,912</b>	<b>\$ 1,368,769</b>	<b>\$ (6,143)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 391,346	\$ 414,282	\$ 358,233	\$ 56,049
Social services	792,502	860,836	759,873	100,963
Transportation	11,000	32,150	31,031	1,119
<b>Total Expenditures</b>	<b>\$ 1,194,848</b>	<b>\$ 1,307,268</b>	<b>\$ 1,149,137</b>	<b>\$ 158,131</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ 67,644</b>	<b>\$ 219,632</b>	<b>\$ 151,988</b>
<b>Fund Balance - January 1</b>	<b>1,439,201</b>	<b>1,439,201</b>	<b>1,439,201</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,439,201</b>	<b>\$ 1,506,845</b>	<b>\$ 1,658,833</b>	<b>\$ 151,988</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

Schedule 4

**SCHEDULE OF FUNDING PROGRESS  
OTHER POST-EMPLOYMENT BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**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 of Covered Payroll</u>
December 31, 2008	\$ -	\$ 612,717	\$ 612,717	-	\$ 2,943,634	20.8%
December 31, 2009	-	835,595	835,595	-	3,036,112	27.5%

**DISCRETELY PRESENTED COMPONENT UNIT  
NORTH KITTSOON RURAL WATER SYSTEM**

<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 of Covered Payroll</u>
December 31, 2009	\$ -	\$ 15,526	\$ 15,526	-	\$ 105,186	15%

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 5**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS  
OTHER POST-EMPLOYMENT BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**PRIMARY GOVERNMENT**

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Employer Contribution</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
December 31, 2008	\$ 73,031	\$ 10,447	14%	\$ 62,584
December 31, 2009	105,438	18,995	18%	149,027

**DISCRETELY PRESENTED COMPONENT UNIT  
NORTH KITTSOON RURAL WATER SYSTEM**

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Employer Contribution</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
December 31, 2009	\$ 1,254	-	0%	\$ 1,254

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

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.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2009:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Professional services	\$ 26,550	\$ 24,430	\$ (2,120)
GIS/LIS	12,520	12,500	(20)
Public safety			
Boat and water safety	5,780	500	(5,280)
Community corrections	181,888	175,465	(6,423)
Enhanced 911	21,781	18,154	(3,627)
Operation Stonegarden	200,295	191,605	(8,690)
Probation and parole	41,346	28,000	(13,346)
Safety committee	3,617	3,447	(170)
Sentence to serve	11,000	-	(11,000)
Culture and recreation			
Snowmobile and ski trails	94,626	94,600	(26)
Conservation of natural resources			
Agricultural inspection	9,501	9,500	(1)
Soil and water conservation	76,075	68,178	(7,897)
Capital outlay			
General government	57,036	10,500	(46,536)

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Budgetary Information

B. Excess of Expenditures Over Budget (Continued)

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Road and Bridge Special Revenue Fund			
Highways and streets			
Engineering	\$ 570,312	\$ 504,679	\$ (65,633)
Maintenance	1,357,152	1,351,338	(5,814)
Construction	4,277,328	4,069,000	(208,328)
Township roads	363,640	-	(363,640)

II. Other Post-Employment Benefits (OPEB)

Primary Government

2008 was the first year implementation of a three year comparison. Currently, only two years' worth of data is available. Future notes will provide additional trend analysis to meet the three year requirement as it becomes available. For more information, refer to the Notes to the Financial Statements Section IV., Other Post-Employment Benefits.

Discretely Presented Component Unit

2009 is the first year implementation of a three year comparison. For more information, refer to the Notes to the Financial Statements Section IV., 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 the operation and maintenance of county, judicial, and state drainage systems. Financing is provided by special assessments levied against benefited properties for the maintenance of ditch systems.

The Forfeited Tax Sale Special Revenue Fund is used to account for 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 apportioned 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.

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

The Health Insurance Special Revenue Fund is used to account for commercial health insurance transactions.

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2009**

	<b>Ditch</b>	<b>Forfeited Tax Sale</b>
<b><u>Assets</u></b>		
Cash and pooled deposits and investments	\$ 680,939	\$ 115
Taxes receivable - prior	-	-
Special assessments receivable - prior	2,776	-
Due from other governments	96,205	-
	<b>\$ 779,920</b>	<b>\$ 115</b>
<b><u>Liabilities and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 13,070	\$ -
Due to other funds	7,038	925
Due to other governments	3,401	-
Deferred revenue - unavailable	92,437	-
Advances from other funds	29,455	-
	<b>\$ 145,401</b>	<b>\$ 925</b>
<b>Fund Balances</b>		
Reserved for public assistance	\$ 264,316	\$ -
Unreserved		
Designated for		
Cash flows	182,458	-
Debt service	-	-
Undesignated	187,745	(810)
	<b>\$ 634,519</b>	<b>\$ (810)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 779,920</b>	<b>\$ 115</b>

**Statement 1**

Government Commitment	Special Revenue Funds		Total Nonmajor Special Revenue Funds (Exhibit 3)
	Health Insurance	Unorganized Townships	
\$ 8,894	\$ 43,824	\$ 156,087	\$ 889,859
-	-	357	357
-	-	-	2,776
-	-	3,355	99,560
<b><u>\$ 8,894</u></b>	<b><u>\$ 43,824</u></b>	<b><u>\$ 159,799</u></b>	<b><u>\$ 992,552</u></b>
\$ -	\$ -	\$ -	\$ 13,070
-	-	1,698	9,661
-	-	-	3,401
-	-	3,712	96,149
-	-	-	29,455
<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 5,410</u></b>	<b><u>\$ 151,736</u></b>
\$ -	\$ -	\$ -	\$ 264,316
-	-	-	182,458
8,894	-	-	8,894
-	43,824	154,389	385,148
<b><u>\$ 8,894</u></b>	<b><u>\$ 43,824</u></b>	<b><u>\$ 154,389</u></b>	<b><u>\$ 840,816</u></b>
<b><u>\$ 8,894</u></b>	<b><u>\$ 43,824</u></b>	<b><u>\$ 159,799</u></b>	<b><u>\$ 992,552</u></b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Ditch</u>	<u>Forfeited Tax Sale</u>
<b>Revenues</b>		
Taxes	\$ -	\$ -
Special assessments	138,724	-
Intergovernmental	350,925	-
Charges for services	5,759	-
Land and timber sales	-	6,407
Miscellaneous	-	-
<b>Total Revenues</b>	<b>\$ 495,408</b>	<b>\$ 6,407</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ -	\$ -
Public safety	-	-
Highways and streets	-	-
Conservation of natural resources	87,906	5,818
<b>Total Expenditures</b>	<b>\$ 87,906</b>	<b>\$ 5,818</b>
<b>Debt service</b>		
Interest	\$ 5,109	\$ -
<b>Total Expenditures</b>	<b>\$ 93,015</b>	<b>\$ 5,818</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 402,393</b>	<b>\$ 589</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	-	-
Transfers out	-	(1,399)
<b>Net Change in Fund Balance</b>	<b>\$ 402,393</b>	<b>\$ (810)</b>
<b>Fund Balance - January 1</b>	<b>232,126</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 634,519</b>	<b>\$ (810)</b>

Statement 2

Government Commitment	Special Revenue Funds		Unorganized Townships	Total Nonmajor Special Revenue Funds (Exhibit 5)
	Health Insurance			
\$ -	\$ -		\$ 27,351	\$ 27,351
-	-		-	138,724
-	-		127,732	478,657
-	-		-	5,759
-	-		-	6,407
-	476,461		1,613	478,074
<b>\$ -</b>	<b>\$ 476,461</b>		<b>\$ 156,696</b>	<b>\$ 1,134,972</b>
\$ -	\$ 473,825		\$ -	\$ 473,825
-	-		4,782	4,782
-	-		164,070	164,070
-	-		-	93,724
<b>\$ -</b>	<b>\$ 473,825</b>		<b>\$ 168,852</b>	<b>\$ 736,401</b>
\$ -	\$ -		\$ -	\$ 5,109
<b>\$ -</b>	<b>\$ 473,825</b>		<b>\$ 168,852</b>	<b>\$ 741,510</b>
\$ -	\$ 2,636		\$ (12,156)	\$ 393,462
-	41,088		-	41,088
-	-		-	(1,399)
<b>\$ -</b>	<b>\$ 43,724</b>		<b>\$ (12,156)</b>	<b>\$ 433,151</b>
<b>8,894</b>	<b>100</b>		<b>166,545</b>	<b>407,665</b>
<b>\$ 8,894</b>	<b>\$ 43,824</b>		<b>\$ 154,389</b>	<b>\$ 840,816</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 6*

**BUDGETARY COMPARISON SCHEDULE  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Special assessments	\$ 138,000	\$ 138,000	\$ 138,724	\$ 724
Intergovernmental	66,200	327,650	350,925	23,275
Charges for services	-	5,000	5,759	759
<b>Total Revenues</b>	<b>\$ 204,200</b>	<b>\$ 470,650</b>	<b>\$ 495,408</b>	<b>\$ 24,758</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Administration	\$ 1,800	\$ 12,800	\$ 12,159	\$ 641
Maintenance and repairs	61,700	76,675	75,747	928
<b>Total conservation of natural resources</b>	<b>\$ 63,500</b>	<b>\$ 89,475</b>	<b>\$ 87,906</b>	<b>\$ 1,569</b>
<b>Debt service</b>				
Interest	-	-	5,109	(5,109)
<b>Total Expenditures</b>	<b>\$ 63,500</b>	<b>\$ 89,475</b>	<b>\$ 93,015</b>	<b>\$ (3,540)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 140,700</b>	<b>\$ 381,175</b>	<b>\$ 402,393</b>	<b>\$ 21,218</b>
<b>Fund Balance - January 1</b>	<b>232,126</b>	<b>232,126</b>	<b>232,126</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 372,826</b>	<b>\$ 613,301</b>	<b>\$ 634,519</b>	<b>\$ 21,218</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 7*

**BUDGETARY COMPARISON SCHEDULE  
FORFEITED TAX SALE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Land and timber sales	\$ 3,000	\$ 3,000	\$ 6,407	\$ 3,407
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Forfeited land	1,000	1,000	5,818	(4,818)
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ 2,000	\$ 2,000	\$ 589	\$ (1,411)
<b>Other Financing Sources (Uses)</b>				
Transfers out	(2,000)	(2,000)	(1,399)	601
<b>Net Change in Fund Balance</b>	\$ -	\$ -	\$ (810)	\$ (810)
<b>Fund Balance - January 1</b>	-	-	-	-
<b>Fund Balance - December 31</b>	\$ -	\$ -	\$ (810)	\$ (810)

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 8*

**BUDGETARY COMPARISON SCHEDULE  
GOVERNMENT COMMITMENT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Other Financing Sources (Uses)</b>				
Transfers out	\$ (5,000)	\$ (5,000)	\$ -	\$ 5,000
<b>Fund Balance - January 1</b>	<u>8,894</u>	<u>8,894</u>	<u>8,894</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u>\$ 3,894</u>	<u>\$ 3,894</u>	<u>\$ 8,894</u>	<u>\$ 5,000</u>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 9*

**BUDGETARY COMPARISON SCHEDULE  
HEALTH INSURANCE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Miscellaneous	\$ 530,000	\$ 530,000	\$ 476,461	\$ (53,539)
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Insurance	530,000	530,000	473,825	56,175
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,636</b>	<b>\$ 2,636</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	41,088	41,088
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 43,724</b>	<b>\$ 43,724</b>
<b>Fund Balance - January 1</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 100</b>	<b>\$ 100</b>	<b>\$ 43,824</b>	<b>\$ 43,724</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 10*

**BUDGETARY COMPARISON SCHEDULE  
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 28,400	\$ 28,400	\$ 27,351	\$ (1,049)
Intergovernmental	23,900	23,900	127,732	103,832
Miscellaneous	-	-	1,613	1,613
<b>Total Revenues</b>	<b>\$ 52,300</b>	<b>\$ 52,300</b>	<b>\$ 156,696</b>	<b>\$ 104,396</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Public safety</b>				
Fire protection	\$ 4,432	\$ 4,432	\$ 4,782	\$ (350)
<b>Highways and streets</b>				
Township roads	\$ 45,050	\$ 45,050	\$ 164,070	\$ (119,020)
<b>Total Expenditures</b>	<b>\$ 49,482</b>	<b>\$ 49,482</b>	<b>\$ 168,852</b>	<b>\$ (119,370)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 2,818</b>	<b>\$ 2,818</b>	<b>\$ (12,156)</b>	<b>\$ (14,974)</b>
<b>Fund Balance - January 1</b>	<b>166,545</b>	<b>166,545</b>	<b>166,545</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 169,363</b>	<b>\$ 169,363</b>	<b>\$ 154,389</b>	<b>\$ (14,974)</b>

**KITTSON 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 KaMaR Solid Waste Agency Fund is used to account for the receipt and disbursement of funds for the KaMaR Solid Waste (recycling) Joint Venture.

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 Prepaid Taxes Agency Fund is used to account for prepaid taxes levied for County purposes and for various governmental units.

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 ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>AGENCY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled deposits and investments	\$ 27,572	\$ 5,068,425	\$ 5,074,061	\$ 21,936
<b><u>Liabilities</u></b>				
Due to other governments	\$ 27,572	\$ 5,068,425	\$ 5,074,061	\$ 21,936
 <b><u>FLEXIBLE BENEFITS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled deposits and investments	\$ 8,974	\$ 54,148	\$ 57,360	\$ 5,762
<b><u>Liabilities</u></b>				
Accounts payable	\$ 8,974	\$ 54,148	\$ 57,360	\$ 5,762
 <b><u>KAMAR SOLID WASTE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled deposits and investments	\$ 149,146	\$ 289,597	\$ 375,351	\$ 63,392
<b><u>Liabilities</u></b>				
Due to other governments	\$ 149,146	\$ 289,597	\$ 375,351	\$ 63,392
 <b><u>KITTSOON COUNTY CHILDREN'S COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled deposits and investments	\$ 71,619	\$ 155	\$ 25,489	\$ 46,285
<b><u>Liabilities</u></b>				
Accounts payable	\$ 71,619	\$ 155	\$ 25,489	\$ 46,285

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Statement 3  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>KITTSOON COUNTY ECONOMIC DEVELOPMENT AUTHORITY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled deposits and investments	\$ 265,919	\$ 122,143	\$ 337,173	\$ 50,889
<b><u>Liabilities</u></b>				
Accounts payable	\$ 265,919	\$ 122,143	\$ 337,173	\$ 50,889
 <b><u>KITTSOON-MARSHALL RURAL WATER SYSTEM</u></b>				
<b><u>Assets</u></b>				
Cash and pooled deposits and investments	\$ 53,676	\$ 8,955	\$ 50,000	\$ 12,631
<b><u>Liabilities</u></b>				
Due to other governments	\$ 53,676	\$ 8,955	\$ 50,000	\$ 12,631
 <b><u>MAR-KIT LANDFILL</u></b>				
<b><u>Assets</u></b>				
Cash and pooled deposits and investments	\$ 951,428	\$ 2,309,512	\$ 1,816,457	\$ 1,444,483
<b><u>Liabilities</u></b>				
Due to other governments	\$ 951,428	\$ 2,309,512	\$ 1,816,457	\$ 1,444,483
 <b><u>PREPAID TAXES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled deposits and investments	\$ 3,225	\$ -	\$ 3,225	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ 3,225	\$ -	\$ 3,225	\$ -

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Statement 3  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled deposits and investments	\$ 12,248	\$ 1,092,766	\$ 1,093,965	\$ 11,049
<b><u>Liabilities</u></b>				
Due to other governments	\$ 12,248	\$ 1,092,766	\$ 1,093,965	\$ 11,049
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled deposits and investments	\$ 153,549	\$ 4,584,085	\$ 4,566,456	\$ 171,178
<b><u>Liabilities</u></b>				
Due to other governments	\$ 153,549	\$ 4,584,085	\$ 4,566,456	\$ 171,178
 <b><u>WATERSHED DITCH</u></b>				
<b><u>Assets</u></b>				
Cash and pooled deposits and investments	\$ -	\$ 25,905	\$ 25,905	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 25,905	\$ 25,905	\$ -
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled deposits and investments	\$ 1,697,356	\$ 13,555,691	\$ 13,425,442	\$ 1,827,605
<b><u>Liabilities</u></b>				
Accounts payable	\$ 346,512	\$ 176,446	\$ 420,022	\$ 102,936
Due to other governments	1,350,844	13,379,245	13,005,420	1,724,669
<b>Total Liabilities</b>	<b>\$ 1,697,356</b>	<b>\$ 13,555,691</b>	<b>\$ 13,425,442</b>	<b>\$ 1,827,605</b>

## **OTHER SCHEDULES**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**BALANCE SHEET - BY DITCH  
DITCH SPECIAL REVENUE FUND  
DECEMBER 31, 2009**

	Assets			
	Cash and Pooled Investments	Special Assessments Receivable - Prior	Due from Other Governments	Total
<b>County Ditches</b>				
1	\$ 59,151	\$ 118	\$ 944	\$ 60,213
4	35,687	2	257	35,946
8	11,578	-	-	11,578
9	11,415	8	-	11,423
11	12,825	9	-	12,834
12	14,276	-	-	14,276
13	6,711	-	-	6,711
14	9,022	36	162	9,220
15	13,096	-	-	13,096
16	16,451	345	179	16,975
17	11,192	-	-	11,192
18	7,597	121	-	7,718
19	18,289	-	-	18,289
20	1,989	-	-	1,989
21	396	-	-	396
22	71,728	-	1,170	72,898
23	6,613	6	-	6,619
25	14,006	-	-	14,006
26	23,532	-	462	23,994
27	41,791	-	619	42,410
28	28,994	-	500	29,494
29	50,518	-	745	51,263
30	4,578	-	-	4,578
31	15,522	111	-	15,633
33	3,536	-	13	3,549
<b>Joint County Ditches</b>				
31	8,383	55	-	8,438
32	3,455	-	-	3,455
33	11,638	-	-	11,638
<b>State Ditches</b>				
1	1,049	709	83,871	85,629
48R	15,536	59	-	15,595
50	4,731	-	-	4,731
72	20,853	-	4,436	25,289
84	12,079	689	-	12,768
85	25,679	32	-	25,711
90	11,642	90	906	12,638
95	75,401	386	1,941	77,728
<b>Total</b>	<b>\$ 680,939</b>	<b>\$ 2,776</b>	<b>\$ 96,205</b>	<b>\$ 779,920</b>

*Schedule 11*

Liabilities						Fund Balances	Total
Accounts Payable	Due to Other Funds	Due to Other Governments	Deferred Revenue Unavailable	Advances from Other Funds	Total	Unreserved Undesignated	Liabilities and Fund Balances
\$ -	\$ -	\$ -	\$ 1,062	\$ -	\$ 1,062	\$ 59,151	\$ 60,213
-	-	-	257	-	257	35,689	35,946
-	-	-	-	-	-	11,578	11,578
-	-	-	-	-	-	11,423	11,423
-	-	-	3	-	3	12,831	12,834
-	-	-	-	-	-	14,276	14,276
-	-	-	-	-	-	6,711	6,711
-	-	-	36	-	36	9,184	9,220
-	-	-	-	-	-	13,096	13,096
-	2,045	-	179	-	2,224	14,751	16,975
-	-	-	-	-	-	11,192	11,192
-	-	-	-	-	-	7,718	7,718
-	-	-	162	-	162	18,127	18,289
-	-	-	-	24,000	24,000	(22,011)	1,989
-	-	-	-	1,455	1,455	(1,059)	396
-	-	-	1,170	-	1,170	71,728	72,898
-	-	-	6	-	6	6,613	6,619
-	-	-	-	-	-	14,006	14,006
-	291	-	462	-	753	23,241	23,994
-	1,801	-	619	-	2,420	39,990	42,410
-	561	-	500	-	1,061	28,433	29,494
-	589	-	745	-	1,334	49,929	51,263
-	-	-	-	-	-	4,578	4,578
-	-	-	111	-	111	15,522	15,633
-	-	58	-	-	58	3,491	3,549
-	-	-	29	-	29	8,409	8,438
-	-	-	-	-	-	3,455	3,455
-	-	-	-	-	-	11,638	11,638
-	1,401	-	84,580	4,000	89,981	(4,352)	85,629
-	-	-	7	-	7	15,588	15,595
5,215	350	-	-	-	5,565	(834)	4,731
7,855	-	1,242	510	-	9,607	15,682	25,289
-	-	-	689	-	689	12,079	12,768
-	-	-	32	-	32	25,679	25,711
-	-	-	90	-	90	12,548	12,638
-	-	2,101	1,188	-	3,289	74,439	77,728
<b>\$ 13,070</b>	<b>\$ 7,038</b>	<b>\$ 3,401</b>	<b>\$ 92,437</b>	<b>\$ 29,455</b>	<b>\$ 145,401</b>	<b>\$ 634,519</b>	<b>\$ 779,920</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 12*

**BALANCE SHEET - BY UNORGANIZED TOWNSHIP  
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND  
DECEMBER 31, 2009**

	<u>Klondike</u>	<u>McKinley</u>	<u>North Red River</u>	<u>Peatland</u>	<u>Total</u>
<b><u>Assets</u></b>					
Cash and pooled deposits and investments	\$ 19,031	\$ 53,489	\$ 41,755	\$ 41,812	\$ 156,087
Taxes receivable - prior	244	113	-	-	357
Due from other governments	75	-	3,280	-	3,355
<b>Total Assets</b>	<b>\$ 19,350</b>	<b>\$ 53,602</b>	<b>\$ 45,035</b>	<b>\$ 41,812</b>	<b>\$ 159,799</b>
<b><u>Liabilities and Fund Balance</u></b>					
<b>Liabilities</b>					
Due to other funds	\$ 463	\$ 259	\$ 939	\$ 37	\$ 1,698
Deferred revenue - unavailable	319	113	3,280	-	3,712
<b>Total Liabilities</b>	<b>\$ 782</b>	<b>\$ 372</b>	<b>\$ 4,219</b>	<b>\$ 37</b>	<b>\$ 5,410</b>
<b>Fund Balance</b>	<b>18,568</b>	<b>53,230</b>	<b>40,816</b>	<b>41,775</b>	<b>154,389</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 19,350</b>	<b>\$ 53,602</b>	<b>\$ 45,035</b>	<b>\$ 41,812</b>	<b>\$ 159,799</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 13**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<b>Primary Government</b>
<b>Shared Revenue</b>	
<b>State</b>	
County program aid	\$ 378,933
Disparity reduction aid	4,458
Enhanced 911	75,660
Highway users tax	3,531,829
Market value credit	174,132
PERA rate reimbursement	12,560
Police state aid	33,756
<b>Total Shared Revenue</b>	<b>\$ 4,211,328</b>
<b>Payments</b>	
Payments in lieu of taxes	\$ 165,305
<b>Grants</b>	
<b>Local</b>	
Markit Landfill	\$ 141,000
<b>State</b>	
<b>Minnesota Department/Board of</b>	
Corrections	\$ 6,188
Human Services	224,448
Natural Resources	94,626
Peace Officers	2,378
Public Safety	181,764
Transportation	205,618
Pollution Control Agency	55,475
Veterans affairs	4,400
Water and Soil Resources	13,791
<b>Total State</b>	<b>\$ 788,688</b>
<b>Federal</b>	
<b>Department of</b>	
Agriculture	\$ 30,786
Interior	485
Justice	27,496
Transportation	1,514,943
Health and Human Services	425,505
Homeland Security	887,981
<b>Total Federal</b>	<b>\$ 2,887,196</b>
<b>Total Grants</b>	<b>\$ 3,816,884</b>
<b>Total Intergovernmental Revenue</b>	<b>\$ 8,193,517</b>

**MANAGEMENT AND COMPLIANCE SECTION**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 14*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses an unqualified 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 "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 programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Kittson County expresses an unqualified 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 programs were:
  - Highway Planning and Construction Cluster
  - Highway Planning and Construction - ARRA CFDA #20.205
  - Highway Planning and Construction CFDA #20.205
  - Disaster Grants - Public Assistance CFDA #97.036
  - Homeland Security Grant Program CFDA #97.067
- 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 obtain suitable knowledge 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.*

PREVIOUSLY REPORTED ITEM RESOLVED

08-1 Audit Adjustments

During our December 31, 2008 audit, we identified material adjustments in the Road and Bridge Special Revenue Fund. These adjustments resulted in significant changes to amounts in the County's financial statements. Various balance sheet accounts have not been adjusted for several years, with the County carrying amounts from previous audits without corresponding adjustments from more recent audits.

Resolution:

Certain immaterial adjustments were recommended for revenue reclassification for 2009; however, these adjustments were not significant. The County adjusted its accounts as per previous year audit recommendations, resulting in a materially accurate record of accounting activity.

**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 Unreserved, Undesignated Fund Balances

Four of the 36 active individual ditch funds had deficit unreserved, undesignated fund balances as of December 31, 2009. The individual ditch fund deficits totaled \$28,256, with the largest individual ditch fund deficit being \$22,011.

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.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 14**  
***(Continued)***

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.*

08-2 Road and Bridge Special Revenue Fund Balance Deficit

At December 31, 2009, the Road and Bridge Special Revenue Fund had a deficit unreserved, undesignated fund balance of \$1,942,037, with a deficit total fund balance of \$894,149.

We recommend the County Board adequately budget and levy the funds necessary to provide road and bridge services within the County.

County's Response:

*The County Board is aware of the Road and Bridge Special Revenue Fund's deficit fund balance and is committed to resolve the situation by monitoring expenditures and increasing the revenues and levy whenever possible.*



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

Board of County Commissioners  
Kittson County

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, 2009, and have issued our report dated July 7, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kittson County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A deficiency in internal control 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies described in the accompanying Schedule of Findings and Responses as items 96-1 and 07-1. 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.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 and the report of other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## 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 Local Government*, 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 Local Government* contains seven applicable 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.

Also included in the Schedule of Findings and Questioned Costs are management practices comments, items 96-3 and 08-2. We believe these recommendations to be of benefit to Kittson County and are reported for that purpose.

The County's written responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than those specified parties.



Hoffman, Dale, & Swenson, PLLC

July 7, 2010



Colleen Hoffman, Manager  
Gordon Dale, CPA  
Audrey Swenson, CPA

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of County Commissioners  
Kittson County

Compliance

We have audited the compliance of Kittson County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to its major federal programs for the year ended December 31, 2009. The County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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 audits 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. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Kittson County complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2009.

### Internal Control Over Compliance

The management of Kittson County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### Schedule of Expenditures of Federal Awards

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, 2009, and have issued our report thereon dated July 7, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the County's 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the Board of County Commissioners, management and federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*Hoffman, Dale, & Swenson*

Hoffman, Dale, & Swenson, PLLC

July 7, 2010

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 15**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>Federal Grantor Pass Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>			<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>				
Passed Through Minnesota Department of Human Services Supplemental Nutrition Assistance Program	10.551		\$	36
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561			30,750
<b>Total U.S. Department of Agriculture</b>			<b>\$</b>	<b>30,786</b>
<b>U.S. Department of Interior</b>				
Passed Through Minnesota Department of Natural Resources Wildlife Restoration	15.611		\$	485
<b>U.S. Department of Justice</b>				
Passed Through Minnesota Department of Public Safety Crime Victim Assistance	16.575		\$	27,496
<b>U.S. Department of Transportation</b>				
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster				
Highway Planning and Construction - ARRA	20.205	\$	649,194	
Highway Planning and Construction	20.205		865,749	\$ 1,514,943
<b>U.S. Department of Health and Human Services</b>				
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			3,000
Temporary Assistance for Needy Families	93.558			40,495
Child Support Enforcement	93.563			56,468
Refugee and Entrant Assistance	93.566			23
Child Care and Development Block Grant	93.575			958
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596			958
Child Welfare Services State Grants	93.645			2,074
Foster Care Title IV-E	93.658			4,140
Social Services Block Grant	93.667			63,245
State Children's Insurance Program	93.767			3

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 15  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>Federal Grantor Pass Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>		<b>Expenditures</b>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Minnesota Department of Human Services (continued)			
Medical Assistance Program Cluster			
Medical Assistance Program - ARRA	93.778	\$ 5,424	
Medical Assistance Program	93.778	244,699	<b>250,123</b>
Block Grants for Community Mental Health Services	93.958		18
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 425,505</b>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Public Safety			
Disaster Grants - Public Assistance	97.036		\$ 475,505
Emergency Management Performance Grants	97.042		13,696
Homeland Security Grant Program	97.067		300,173
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 789,374</b>
<b>Total Federal Awards</b>			<b>\$ 2,788,589</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**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, 2009. 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 assets, 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	\$ 2,887,196
Less: Disaster Grants - Public Assistance received and not spent for disaster. (CFDA #97.036)	<u>(98,607)</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u><u>\$ 2,788,589</u></u>

**V. Subrecipients**

During 2009, the County did not pass any federal money to subrecipients.

**VI. American Recovery and Reinvestment Act**

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.