

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

YEAR ENDED DECEMBER 31, 2008

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

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INTRODUCTORY SECTION

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2008**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1 st District	Craig Spilde	January 2013
2 nd District	John Anderson	January 2013
3 rd District	Joe Bouvette, Chair	January 2011
4 th District	Leon Olson	January 2013
5 th District	Betty Younggren	January 2011
Officers		
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 2009
Environmental Officer	Gary Rice	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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Thief River Falls, MN 56701
Phone: 218-681-4078
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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, 2008, 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, 2008, 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.

As discussed in Note IV., Other Post-Employment Benefits, Kittson County has implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2009, 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.

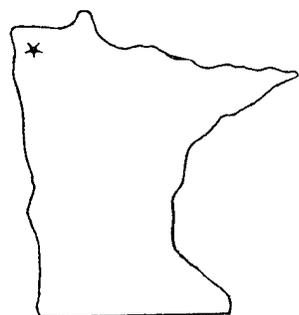
The Management's Discussion and Analysis and the required supplementary information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, 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

August 14, 2009



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, 2008. 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 \$56,680,522, of which \$48,039,030 is invested in capital assets, net of related debt, \$2,806,263 is restricted for specific purposes, and \$5,835,229 is unrestricted. The total net assets of governmental activities increased by \$2,029,850 for the year ended December 31, 2008. This is attributed primarily to highway construction projects financed by County State Aid Highway funding.

At the close of 2008, the County's governmental funds reported combined ending fund balances of \$7,379,433, a decrease of \$161,469 from the prior year. Of the total fund balance amount, \$1,151,142 is legally or contractually reserved, \$4,734,262 is designated for specific purposes for 2008, and an additional \$1,494,029 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.

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 10 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 76 of this report.

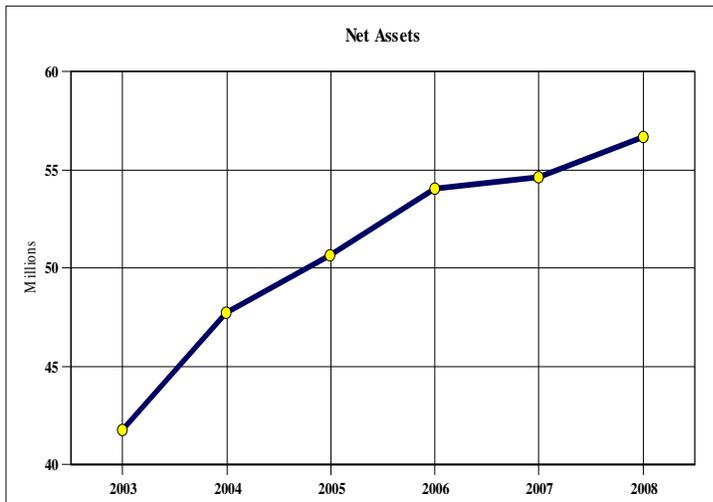
Notes to the Financial Statements

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 \$56,680,522 at the close of 2008. The largest portion of the County’s net assets (approximately 85 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 five 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 \$5,835,229, as of December 31, 2008, 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 \$2,385,375, from the prior year, primarily due to the continued construction of various highways projects. Total liabilities increased by \$355,525, from the prior year, mainly due to an increase in deferred revenue for advance receipt of County State Aid Highway allotments. This resulted in increased net assets of \$2,029,850 from the prior year.

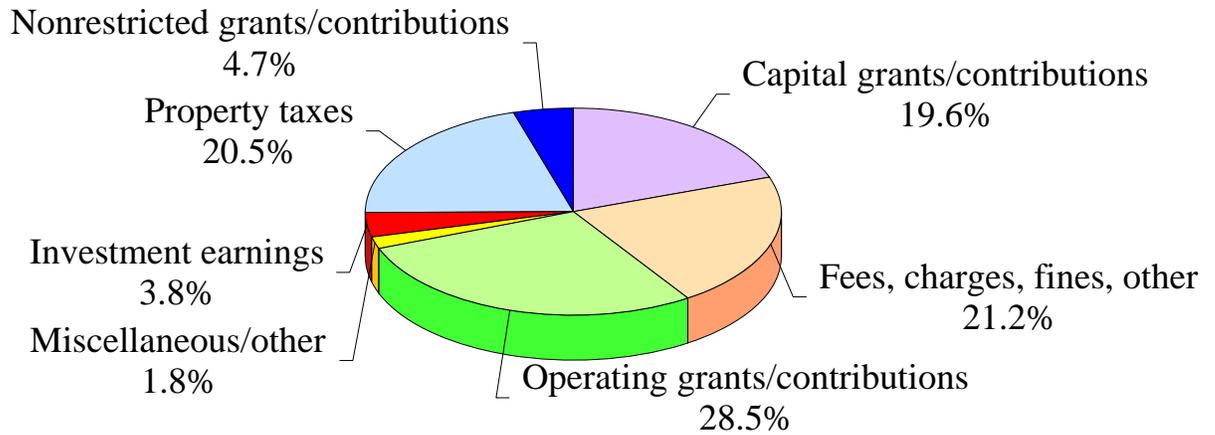
NET ASSETS

	Governmental Activities	
	2008	2007
Current and other assets	\$ 9,803,008	\$ 9,017,191
Capital assets	48,039,030	46,439,472
Total assets	\$ 57,842,038	\$ 55,456,663
Other liabilities	\$ 719,791	\$ 415,761
Long-term liabilities outstanding	441,725	390,230
Total liabilities	\$ 1,161,516	\$ 805,991
Net assets		
Invested in capital assets, net of related debt	\$ 48,039,030	\$ 46,439,472
Restricted	2,806,263	1,645,009
Unrestricted	5,835,229	6,566,191
Total net assets	\$ 56,680,522	\$ 54,650,672

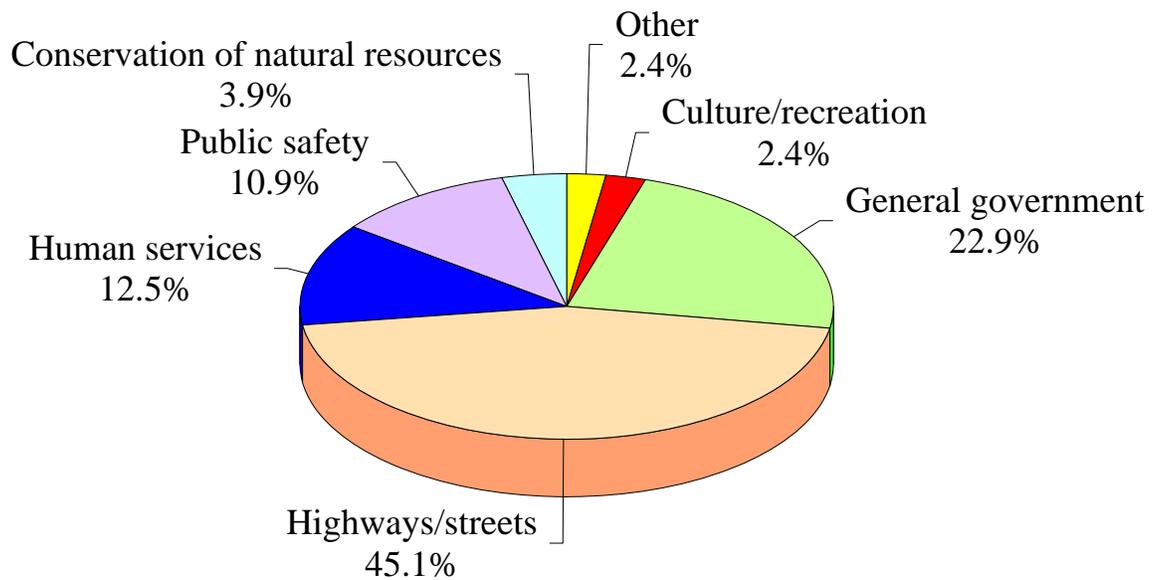
CHANGES IN NET ASSETS

	Governmental Activities	
	2008	2007
Revenues		
Program Revenues		
Charges for services	\$ 2,444,991	\$ 2,031,617
Operating grants and contributions	3,288,478	2,229,949
Capital grants and contributions	2,263,652	2,448,022
General Revenues		
Property taxes	2,368,527	2,258,531
Grants and contributions not restricted to specific programs	538,603	572,015
Payments in lieu of taxes	161,767	156,874
Insurance dividends	51,112	56,680
Investment earnings	438,692	459,226
Total revenues	\$ 11,555,822	\$ 10,212,914
Expenses		
General government	\$ 2,177,203	\$ 2,074,301
Public safety	1,034,828	956,907
Highways and streets	4,298,155	4,397,593
Sanitation	99,249	100,060
Human services	1,188,197	1,294,253
Health	36,568	36,568
Culture and recreation	228,512	179,677
Conservation of natural resources	371,560	559,614
Economic development	91,700	13,600
Interest	-	3,430
Total expenses	\$ 9,525,972	\$ 9,616,003
Increase (decrease) in net assets	\$ 2,029,850	\$ 596,911
Net assets, January 1	54,650,672	54,053,761
Net assets, December 31	\$ 56,680,522	\$ 54,650,672

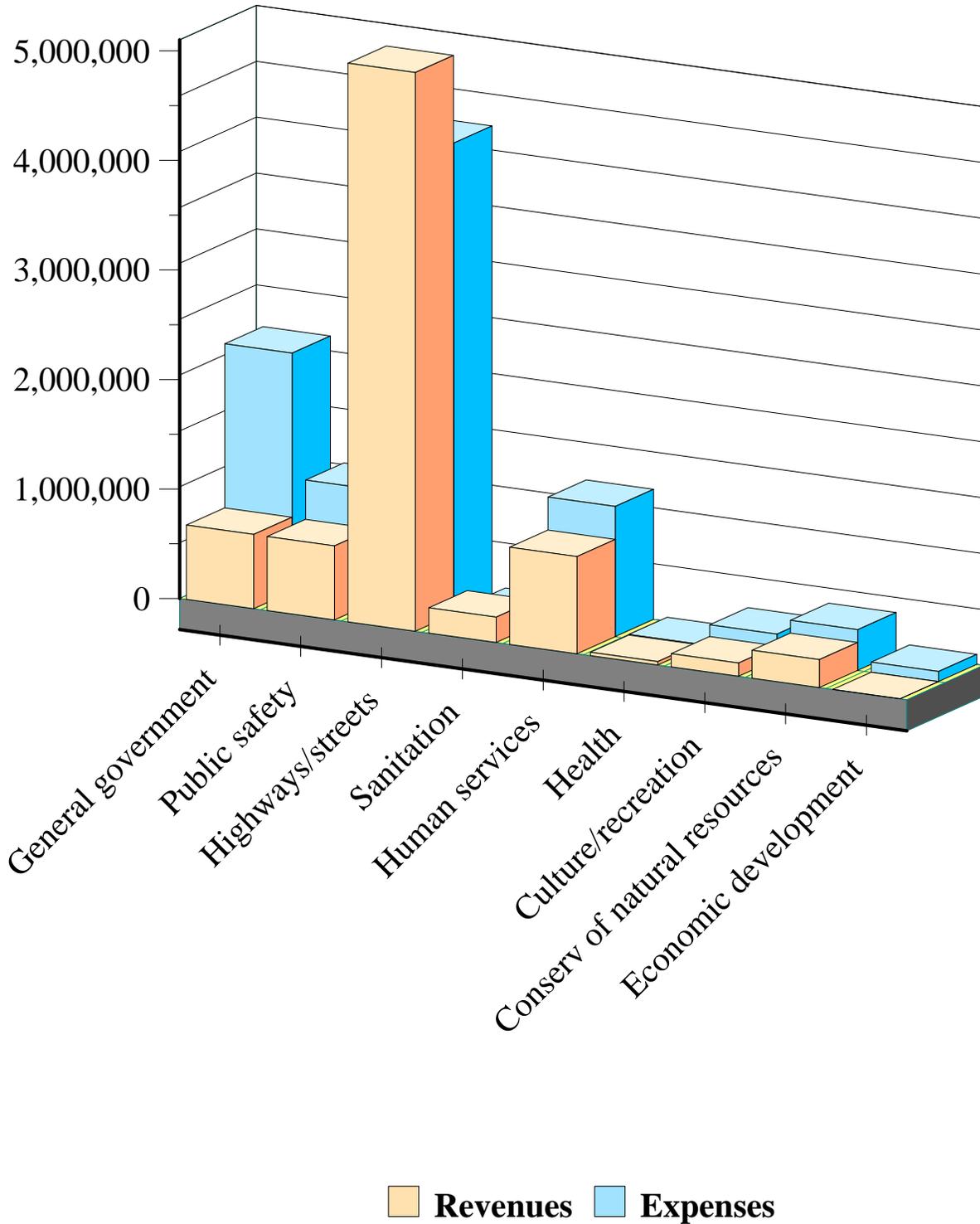
Revenues by Source



Expenses by Function



Program Revenues & Expenses



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 2008, the County's governmental funds reported combined ending fund balances of \$7,379,433. Of this amount, approximately 16 percent constitutes legally or contractually reserved fund balance, 64 percent constitutes specifically designated fund balance, and 20 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 \$5,629,024. The General Fund's reserved fund balance was \$684,236, unreserved, designated fund balance was \$3,871,057, and the unreserved, undesignated fund balance was \$1,073,731. 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 2008. Unreserved fund balance represents about 148 percent of total General Fund expenditures, while total fund balance represents 168 percent of that same amount.

In 2008, the fund balance amount in the General Fund increased by \$113,403, primarily due to uncompleted building projects, unexpected revenues, and a decrease in budgeted expenditures.

The fund balance of the Road and Bridge Special Revenue Fund decreased by \$456,665 in 2008, due to increased fuel costs, contract overruns, and purchases of machinery and equipment.

The fund balance of the Social Services Special Revenue Fund increased \$174,583 from the prior year due to an increase in Medical Assistance recoveries and other unexpected revenues.

GENERAL FUND BUDGETARY HIGHLIGHTS

The budget amendments in 2008 consisted of an overall increase in budgeted revenues of \$187,040, due to the change in the issuance date of the Natural Resources Block Grant, an increase in the snowmobile trail grant, an increase in sheriff's forfeitures and seizure monies, unexpected Homeland Security grant monies, and MCIT dividends. The budget amendments in 2008 also consisted of an overall increase in budgeted expenditures of \$256,496, due to Homeland Security grant purchases, legal expenses, increased appropriations to KaMaR Solid Waste for operations and building the remodel project.

Actual revenues were more than overall final budgeted revenues by \$208,727, with the largest positive variances in intergovernmental revenues and investment earnings. Actual expenditures were less than overall final budgeted expenditures by \$10,533.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2008, amounted to \$48,039,030 (net of accumulated depreciation). The total increase in the County's investment in capital assets for the current fiscal year was three percent. This was primarily due to the continued construction of various highway projects.

	Governmental Activities	
	2008	2007
Land	\$ 190,821	\$ 190,821
Construction in progress	2,898,150	1,111,635
Infrastructure	43,522,722	43,643,070
Buildings and improvements	386,920	351,366
Machinery and equipment	1,040,417	1,142,580
Total capital assets	\$ 48,039,030	\$ 46,439,472

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 6.2 percent as of December, 2008. This is slightly lower than the statewide rate of 6.8 percent and the national average rate of 7.1 percent.
- Kittson County's population at July 1, 2008 was 4,462, a decrease of 817 since 2000. This ranks Kittson County 84th of 87 in the State of Minnesota.
- On December 16, 2008, the Kittson County set its 2009 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, 2008**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled deposits and investments	\$ 7,532,076	\$ 43,943
Fund deposit	40,000	-
Taxes receivable - prior	39,983	-
Special assessments receivable - prior	1,580	-
Accounts receivable	21,374	72,454
Accrued interest receivable	79,977	6,562
Due from other governments	1,847,413	-
Inventories	240,605	-
Restricted assets		
Cash and pooled deposits	-	337,513
Fund deposits	-	70,000
Special assessments receivable		
Current	-	317,847
Prior	-	21,006
Due from other governments	-	771,000
Surcharge cash reserved for debt repayment	-	433
Pooled deposits reserved for asset replacement	-	704,349
Surcharge receivable reserved for debt repayment	-	6,380
Deferred debt issuance costs	-	8,165
Special assessments receivable - noncurrent	-	937,276
Capital assets		
Non-depreciable	3,088,971	137,620
Depreciable - net of accumulated depreciation	44,950,059	10,309,479
	\$ 57,842,038	\$ 13,744,027
<u>Liabilities</u>		
Accounts payable	\$ 110,857	\$ 7,092
Salaries payable	183,756	-
Accrued payroll taxes	-	7,574
Contracts payable	144,183	-
Due to other governments	42,972	1,875
Deferred revenue unearned	238,023	-
Customer deposits	-	10,530
Payable from restricted assets		
General obligation bonds - current	-	105,000
Revenue bonds - current	-	16,000
Long-term liabilities		
Due within one year	144,050	12,091
Due in more than one year	297,675	1,613,313
	\$ 1,161,516	\$ 1,773,475

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Net Assets</u>		
Invested in capital assets, net of related debt	\$ 48,039,030	\$ 8,726,659
Restricted for		
General government	270,956	-
Public safety	662,700	-
Highways and streets	1,744,926	-
Conservation of natural resources	127,681	-
Equipment replacement	-	704,349
Debt service	-	407,946
Unrestricted	5,835,229	2,131,598
Total Net Assets	\$ 56,680,522	\$ 11,970,552

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Expenses	Fees, Charges, Fines and Other	Program Revenues Operating Grants and Contributions
<u>Functions/Programs</u>			
Primary Government			
Governmental activities			
General government	\$ 2,177,203	\$ 676,524	\$ 2,500
Public safety	1,034,828	51,136	625,133
Highways and streets	4,298,155	1,458,465	1,391,142
Sanitation	99,249	35,974	196,000
Human services	1,188,197	205,591	682,128
Health	36,568	-	32,498
Culture and recreation	228,512	-	120,467
Conservation of natural resources	371,560	17,301	238,610
Economic development	91,700	-	-
Total Primary Government	\$ 9,525,972	\$ 2,444,991	\$ 3,288,478
Component Unit			
North Kittson Rural Water System	\$ 698,186	\$ 413,249	\$ -

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
\$ -	\$ (1,498,179)	\$ -
-	(358,559)	-
2,263,652	815,104	-
-	132,725	-
-	(300,478)	-
-	(4,070)	-
-	(108,045)	-
-	(115,649)	-
-	(91,700)	-
\$ 2,263,652	\$ (1,528,851)	\$ -
\$ 175,118	\$ -	\$ (109,819)
	\$ 2,368,527	\$ -
	538,603	613
	161,767	-
	51,112	-
	438,692	26,060
	\$ 3,558,701	\$ 26,673
	\$ 2,029,850	\$ (83,146)
	54,650,672	12,053,698
	\$ 56,680,522	\$ 11,970,552

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

	General Fund	Special Revenue Funds		Other Governmental Funds (Statement 1)	Total Governmental Funds
		Road and Bridge	Social Services		
Assets					
Cash and pooled deposits and investments	\$ 5,543,016	\$ 22,614	\$ 1,445,649	\$ 520,797	\$ 7,532,076
Fund deposit	-	-	40,000	-	40,000
Taxes receivable - prior	26,707	6,077	7,009	190	39,983
Special assessments receivable - prior	-	-	-	1,580	1,580
Accounts receivable	4,875	11,712	4,787	-	21,374
Accrued interest receivable	79,895	-	82	-	79,977
Due from other funds	1,724	2,601	32	-	4,357
Due from other governments	466,655	1,182,130	47,634	150,994	1,847,413
Inventories	-	240,605	-	-	240,605
Advances to other funds	105,299	-	-	-	105,299
Total Assets	\$ 6,228,171	\$ 1,465,739	\$ 1,545,193	\$ 673,561	\$ 9,912,664

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

	General Fund	Special Revenue Funds		Other Governmental Funds (Statement 1)	Total Governmental Funds
		Road and Bridge	Social Services		
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 31,281	\$ 31,353	\$ 48,028	\$ 195	\$ 110,857
Salaries payable	100,533	56,393	26,830	-	183,756
Contracts payable	17,500	126,683	-	-	144,183
Due to other funds	32	-	-	4,325	4,357
Due to other governments	1,504	1,549	27,400	12,519	42,972
Deferred revenue - unavailable	448,297	1,108,195	3,734	143,558	1,703,784
Deferred revenue - unearned	-	238,023	-	-	238,023
Advances from other funds	-	-	-	105,299	105,299
Total Liabilities	\$ 599,147	\$ 1,562,196	\$ 105,992	\$ 265,896	\$ 2,533,231
Fund Balances					
Reserved for					
Advances to other funds	\$ 105,299	\$ -	\$ -	\$ -	\$ 105,299
Corrections supervision	5,474	-	-	-	5,474
County State Aid Highway Allotment	-	98,152	-	-	98,152
DWI assessment	3,225	-	-	-	3,225
Encumbrances	30,659	-	-	-	30,659
Enhanced 911	210,324	-	-	-	210,324
Handgun permits	4,429	-	-	-	4,429
Help America Vote Act	167,427	-	-	-	167,427
Inventories	-	240,605	-	-	240,605
Law library	17,208	-	-	-	17,208
Missing heirs	1,067	-	-	-	1,067
Pit restoration	-	65,733	-	-	65,733
Probation	6,143	-	-	-	6,143
Public assistance	-	45,109	-	17,307	62,416
Recorder's equipment	36,854	-	-	-	36,854
Sheriff's contingent fund	403	-	-	-	403
Sheriff's forfeited property	2,991	-	-	-	2,991
Technology	48,400	-	-	-	48,400
Vehicle seizures	3,514	-	-	-	3,514
Water planning	40,819	-	-	-	40,819
Unreserved					
Designated for					
Buildings	794,000	-	200,000	-	994,000
Cash flows	1,357,766	-	497,853	-	1,855,619
Data processing	288,000	-	100,000	-	388,000
E-911 road signs	200,000	-	-	-	200,000
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	1,073,731	(546,056)	611,348	-	1,139,023
Unreserved, reported in nonmajor Special revenue funds	-	-	-	390,358	390,358
Total Fund Balances	\$ 5,629,024	\$ (96,457)	\$ 1,439,201	\$ 407,665	\$ 7,379,433
Total Liabilities and Fund Balances	\$ 6,228,171	\$ 1,465,739	\$ 1,545,193	\$ 673,561	\$ 9,912,664

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2008**

Fund balances - total governmental funds (Exhibit 3)	\$ 7,379,433
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.	48,039,030
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	1,703,784
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	(62,584)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(379,141)</u>
Net assets of governmental activities (Exhibit 1)	<u>\$ 56,680,522</u>

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	General Fund	Special Revenue Funds		Other Government Funds (Statement 2)	Total Governmental Funds
		Road and Bridge	Social Services		
Revenues					
Taxes	\$ 1,574,625	\$ 382,844	\$ 413,008	\$ 23,634	\$ 2,394,111
Special assessments	-	-	-	113,834	113,834
Licenses and permits	4,225	-	-	-	4,225
Intergovernmental	1,171,949	3,456,461	777,682	81,674	5,487,766
Charges for services	216,187	1,338,955	127,615	7,191	1,689,948
Fines and forfeitures	6,088	-	-	-	6,088
Investment earnings	437,122	-	1,570	-	438,692
Land and timber sales	-	-	-	1,829	1,829
Miscellaneous	116,265	101,550	77,976	480,282	776,073
Total Revenues	\$ 3,526,461	\$ 5,279,810	\$ 1,397,851	\$ 708,444	\$ 10,912,566
Expenditures					
Current					
General government	\$ 1,565,392	\$ -	\$ -	\$ 516,677	\$ 2,082,069
Public safety	922,567	-	-	4,369	926,936
Highways and streets	-	5,609,198	-	61,136	5,670,334
Sanitation	91,277	-	-	-	91,277
Human services	-	-	1,201,576	-	1,201,576
Health	36,568	-	-	-	36,568
Culture and recreation	228,512	-	-	-	228,512
Conservation of natural resources	254,712	-	-	109,367	364,079
Economic development	91,700	-	-	-	91,700
Total Current	\$ 3,190,728	\$ 5,609,198	\$ 1,201,576	\$ 691,549	\$ 10,693,051
Debt Service					
Interest	\$ -	\$ -	\$ -	\$ 7,961	\$ 7,961
Capital Outlay					
General government	\$ 109,038	\$ -	\$ -	\$ -	\$ 109,038
Public safety	40,016	-	-	-	40,016
Highways and streets	-	178,762	-	-	178,762
Human services	-	-	21,692	-	21,692
Total Capital Outlay	\$ 149,054	\$ 178,762	\$ 21,692	\$ -	\$ 349,508
Total Expenditures	\$ 3,339,782	\$ 5,787,960	\$ 1,223,268	\$ 699,510	\$ 11,050,520
Excess of Revenues Over (Under) Expenditures	\$ 186,679	\$ (508,150)	\$ 174,583	\$ 8,934	\$ (137,954)

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	General Fund	Special Revenue Funds		Other Government Funds (Statement 2)	Total Governmental Funds
		Road and Bridge	Social Services		
Other Financing Sources (Uses)					
Transfers in	\$ 1,724	\$ 75,000	\$ -	\$ -	\$ 76,724
Transfers out	(75,000)	-	-	(1,724)	(76,724)
Total Other Financing Sources (Uses)	\$ (73,276)	\$ 75,000	\$ -	\$ (1,724)	\$ -
Net Change in Fund Balance	\$ 113,403	\$ (433,150)	\$ 174,583	\$ 7,210	\$ (137,954)
Fund Balance - January 1	5,515,621	360,208	1,264,618	400,455	7,540,902
Increase (decrease) in reserved for inventories	-	(23,515)	-	-	(23,515)
Fund Balance - December 31	\$ 5,629,024	\$ (96,457)	\$ 1,439,201	\$ 407,665	\$ 7,379,433

**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, 2008**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (137,954)

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

Governmental funds report capital outlay as expenditures. However, in
the Statement of Activities, the cost of those assets is allocated over
their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets and infrastructure	\$ 3,087,943	
Current year depreciation	(1,488,385)	1,599,558

Revenues in the Statement of Activities that do not provide current
financial resources are not reported as revenues in the governmental funds.

Change in deferred revenue		643,256
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Some expenses reported in the Statement of Activities do not require the
use of current financial resources and, therefore, are not reported as
expenditures in governmental funds.

Change in compensated absences	\$ 11,089	
Change in other post employment benefits	(62,584)	
Change in inventories	(23,515)	(75,010)

Change in net assets of governmental activities (Exhibit 2) \$ 2,029,850

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2008**

	Mar-Kit Landfill Investment Trust	Agency (Statement 3)
<u>Assets</u>		
Cash and pooled deposits and investments	\$ -	\$ 1,697,356
Fund deposits and investments	1,218,678	-
Accrued interest receivable	2,866	-
	\$ 1,221,544	\$ 1,697,356
<u>Liabilities</u>		
Accounts payable	\$ -	\$ 346,512
Accrued interest payable	2,866	-
Due to other governments	-	1,350,844
	\$ 2,866	\$ 1,697,356
<u>Net Assets</u>		
Net assets, held in trust for pool participants	\$ 1,218,678	

**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, 2008**

<u>Additions</u>	
Investment earnings	\$ 47,603
<u>Deductions</u>	
Distributions to participants	<u>139,526</u>
Change in net assets	\$ (91,923)
Net Assets--January 1	<u>1,310,601</u>
Net Assets--December 31	<u><u>\$ 1,218,678</u></u>

**KITTSON COUNTY
HALLOCK, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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, 2008, 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 2008 were \$437,122. Total investment earnings for 2008 were \$438,692.

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. Long-Term Obligations

The County began to calculate and record a net other post-employment benefit obligation (NOPEBO) at December 31, 2008. The NOPEBO is, in general, the cumulative difference between the actuarial required contribution and the actual contributions since January 1, 2008.

9. 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.

10. 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.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

II. Stewardship, Compliance, and Accountability

A. Deficit Fund Balance

At December 31, 2008, the Road and Bridge Special Revenue Fund had a deficit unreserved, undesignated fund balance of \$546,056, with a deficit total fund balance of \$96,457. This deficit will be eliminated with future levies.

B. Individual Fund Deficits of Equity Accounts

Ditch Special Revenue Fund

Eight of the 39 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, 2008:

Account balance	\$ 337,156
Account deficit	<u>(105,030)</u>
Fund Balance	<u><u>\$ 232,126</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, 2008, are reported as follows:

**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
	<u> </u>	<u> </u>
Government-wide statement of net assets		
Cash and pooled deposits and investments	\$ 7,532,076	\$ 43,943
Fund deposits	40,000	-
Restricted cash and pooled deposits	-	337,513
Restricted fund deposits	-	70,000
Surcharge cash reserved for debt repayment	-	433
Pooled deposits reserved for asset replacement	-	704,349
Statement of fiduciary net assets		
Cash and pooled deposits and investments	1,697,356	-
Fund deposits and investments	<u>1,218,678</u>	<u>-</u>
 Total cash and investments	 <u>\$ 10,488,110</u>	 <u>\$ 1,156,238</u>
 Deposits	 \$ 3,115,103	 \$ 1,156,238
Cash on hand	1,800	-
Investments	<u>7,371,207</u>	<u>-</u>
 Total deposits, cash on hand, and investments	 <u>\$ 10,488,110</u>	 <u>\$ 1,156,238</u>

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, 2008, the County’s deposits were not exposed to custodial credit risk.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Cash and Investments (Continued)

Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as high risk by Minnesota Statute, § 118A.04, subdivision 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (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, 2008, the County had the following investments and maturities:

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Cash and Investments

Interest Rate Risk (Continued)

	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>5+ Years</u>
Federal National Mortgage Association	\$ 552,915	\$ -	\$ -	\$ 552,915
Federal Home Loan Mortgage Corporation	250,288	-	-	250,288
Certificates of Deposit Account Resgistry Services (CDARS)	950,000	950,000	-	-
Negotiable Certificates of Deposit	4,591,914	2,610,465	1,791,449	190,000
Money Market	950,474	950,474	-	-
Tennessee Valley Authority Power Bonds	<u>75,616</u>	<u>-</u>	<u>-</u>	<u>75,616</u>
Total Investments	<u>\$ 7,371,207</u>	<u>\$ 4,510,939</u>	<u>\$ 1,791,449</u>	<u>\$ 1,068,819</u>
	100%	61.2%	24.3%	14.5%

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, 2008, is as follows:

	<u>S & P Rating</u>	<u>Fair Value</u>
Federal National Mortgage Association	AAA	\$ 552,915
Federal Home Loan Mortgage Corporation	AAA	250,288
CDARS	N/A	950,000
Negotiable Certificates of Deposit	N/A	4,591,914
Money Market	N/A	950,474
Tennessee Valley Authority Power Bonds	N/R	<u>75,616</u>
		<u>\$ 7,371,207</u>

N/R – not rated

N/A – not applicable

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Cash and Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2008, 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 CDARS are with 19 separate financial institutions and are not exposed to concentration of credit risk. The County's negotiable certificates of deposit are with 46 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 with the Federal National Mortgage Association in the amount of \$552,915, or 7.5 percent of total investments.

2. Receivables

Receivables as of December 31, 2008, for the County's governmental activities, including any applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>
Taxes	\$ 39,983
Special assessments	1,580
Accounts	21,374
Accrued interest	79,977
Due from other governments	<u>1,847,413</u>
Total	<u>\$ 1,990,327</u>

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

Receivables as of December 31, 2008, for the discretely presented component unit, including any applicable allowances for uncollectible accounts, are as follows:

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts	\$ 72,454	\$ -
Accrued interest	6,562	
Restricted		
Special assessments	1,276,129	937,276
Due from other governments	771,000	-
Surcharge - reserved for debt repayment	6,380	-
Total	\$ 2,132,525	\$ 937,276

3. Capital Assets

Capital asset activity for the primary government for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 190,821	\$ -	\$ -	\$ 190,821
Construction in progress	1,111,635	2,738,436	951,921	2,898,150
Total capital assets not depreciated	\$ 1,302,456	\$ 2,738,436	\$ 951,921	\$ 3,088,971
Capital assets being depreciated				
Infrastructure	\$ 55,697,096	\$ 951,921	\$ -	\$ 56,649,017
Buildings and improvements	2,006,668	71,663	-	2,078,331
Machinery and equipment	3,805,969	277,844	66,815	4,016,998
Total capital assets being depreciated	\$ 61,509,733	\$ 1,301,428	\$ 66,815	\$ 62,744,346
Less: accumulated depreciation for				
Infrastructure	\$ 12,054,026	\$ 1,072,269	\$ -	\$ 13,126,295
Buildings and improvements	1,655,302	36,109	-	1,691,411
Machinery and equipment	2,663,389	380,007	66,815	2,976,581
Total accumulated depreciation	\$ 16,372,717	\$ 1,488,385	\$ 66,815	\$ 17,794,287
Total capital assets, depreciated, net	\$ 45,137,016	\$ (186,957)	\$ -	\$ 44,950,059
Primary Government Capital Assets, Net	\$ 46,439,472	\$ 2,551,479	\$ 951,921	\$ 48,039,030

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

General government	\$ 84,996
Public safety	75,851
Highways and streets, including depreciation of infrastructure assets	1,320,608
Human services	<u>6,930</u>
Total Depreciation Expense	<u>\$ 1,488,385</u>

Capital asset activity for the discretely presented component unit for the year ended December 31, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 108,045	\$ -	\$ -	\$ 108,045
Construction in progress	28,949	626	-	<u>29,575</u>
Total capital assets not depreciated	<u>\$ 136,994</u>	<u>\$ 626</u>	<u>\$ -</u>	<u>\$ 137,620</u>
Capital assets being depreciated				
Distribution system	\$ 10,002,723	\$ -	\$ -	\$ 10,002,723
Buildings and pumps	3,717,258	-	-	3,717,258
Machinery and equipment	137,132	13,270	-	150,402
Tower reconditioning	285,748	-	-	<u>285,748</u>
Total capital assets being depreciated	<u>\$ 14,142,861</u>	<u>\$ 13,270</u>	<u>\$ -</u>	<u>\$ 14,156,131</u>
Less: accumulated depreciation for				
Distribution system	\$ 2,184,787	\$ 115,963	\$ -	\$ 2,300,750
Buildings and pumps	1,294,592	82,181	-	1,376,773
Machinery and equipment	92,957	12,372	-	105,329
Tower reconditioning	49,512	14,287	(1)	<u>63,800</u>
Total accumulated depreciation	<u>\$ 3,621,848</u>	<u>\$ 224,803</u>	<u>\$ (1)</u>	<u>\$ 3,846,652</u>
Total capital assets, depreciated, net	<u>\$ 10,521,013</u>	<u>\$ (211,533)</u>	<u>\$ 1</u>	<u>\$ 10,309,479</u>
Component Unit				
Capital Assets, Net	<u>\$ 10,658,007</u>	<u>\$ (210,907)</u>	<u>\$ 1</u>	<u>\$ 10,447,099</u>

\$224,803 of depreciation expense was charged to the functions of the Rural Water System.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Construction Commitments

The County has active construction commitments as of December 31, 2008. The commitments include the following:

	Spent-to-Date	Remaining Commitment
Governmental activities		
General government - courthouse restroom	\$ 83,150	\$ 30,659
Highways and streets	1,297,372	23,114

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

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2008, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
General Fund	Other Governmental	\$ 1,724	Forfeited tax settlement
Road and Bridge Special Revenue Fund	Other Governmental	2,601	Charges for services
Social Services Special Revenue Fund	General Fund	32	Charges for services
Total Due To/From Other Funds		\$ 4,357	

Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount	
General Fund	Ditch Special Revenue Fund	\$ 105,299	Cash flow

This advance will be paid back as funds become available.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

Interfund transfers for the year ended December 31, 2008, consisted of the following operating transfer:

Transfer to General Fund from Other Governmental	\$ 1,724	Forfeited tax sale proceeds
Transfer to Road and Bridge Special Revenue Fund from General Fund	<u>75,000</u>	Cash flow
Total Interfund Transfers	<u><u>\$ 76,724</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, 2008, Governmental Funds reported the following various components of deferred revenues:

	<u>Deferred Unavailable</u>	<u>Deferred Unearned</u>
Taxes	\$ 21,525	\$ -
Special Assessments	462	-
Grants	589,332	-
Contracts	<u>1,092,465</u>	<u>238,023</u>
Total Deferred Revenue	<u><u>\$ 1,703,784</u></u>	<u><u>\$ 238,023</u></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.

Unused compensatory time, accumulated vacation and vested sick leave are paid to employees upon termination. Unvested sick leave, approximately \$405,589 at December 31, 2008, is available to employees in the event of illness-related absences and is not paid to them at termination.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities (Continued)

Operating Lease

The County leases a postage meter under a noncancelable operating lease. The total expenditures for the year ended December 31, 2008 were \$2,101. The balance due on this lease is \$2,227 and will be paid off in 2009.

Changes in Long-Term Liabilities

Long-term liability for activity for the governmental activities for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Net OPEB Payable	\$ -	\$ 73,031	\$ 10,447	\$ 62,584	\$ -
Compensated Absences	390,230	160,779	171,868	379,141	144,050
Long-Term Liabilities	<u>\$ 390,230</u>	<u>\$ 233,810</u>	<u>\$ 182,315</u>	<u>\$ 441,725</u>	<u>\$ 144,050</u>

Long-Term Debt – Discretely Presented Component Unit

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

<p>\$765,000 General Obligation Refunding Bonds of 1998 – dated September 1, 1998, due in installments of \$40,000 to \$70,000 through July, 2016, with net interest rate of 4.9395 percent. This debt is to refund general obligation bonds dated August 1991 which were scheduled to mature January 1, 2020. The new bonds were issued with a discount of \$14,994 and net issue costs of \$2,625. As a result of the advanced refunding, the Water System realized an economic gain of \$146,347 with a present value of \$43,251. This debt is reported net of unamortized bond discount of \$6,604.</p>	\$ 403,396
<p>\$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 \$3,731.</p>	1,156,269
<p>\$813,000 General Obligation Revenue Bonds of 2004 – dated March 15, 2004 due in annual installments of \$16,000 to \$22,000 through January, 2017, net interest rate of 4.5 percent. This debt is for construction of the Rural Water System.</p>	<u>150,440</u>
Total Payable from North Kittson Rural Water System Component Unit	<u>\$ 1,710,105</u>

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

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

Debt Service Requirements

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

Year Ending December 31	General Obligation Refunding Bonds		General Obligation Revenue Bond of 2004		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 105,000	\$ 70,762	\$ 16,000	\$ 9,464	\$ 121,000	\$ 80,226
2010	110,000	66,852	17,000	8,744	127,000	75,596
2011	115,000	62,490	18,000	7,259	133,000	69,749
2012	120,000	57,790	19,000	6,449	139,000	64,239
2013	120,000	57,790	20,000	5,594	140,000	63,384
2014-2018	590,000	204,716	60,440	9,846	650,440	214,562
2019-2022	410,000	75,971	-	-	410,000	75,971
					-	-
	\$ 1,570,000	\$ 596,371	\$ 150,440	\$ 47,356	\$ 1,720,440	\$ 643,727
Less: Bond discount	(10,335)	-	-	-	(10,335)	-
Total	<u>\$ 1,559,665</u>	<u>\$ 596,371</u>	<u>\$ 150,440</u>	<u>\$ 47,356</u>	<u>\$ 1,710,105</u>	<u>\$ 643,727</u>

Changes in Long-Term Liabilities

Long-term liability activity for the discretely presented component unit for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Refunding Bonds	\$ 1,675,000	\$ -	\$ 105,000	\$ 1,570,000	\$ 105,000
Less: Bond discount	(11,426)	-	(1,091)	(10,335)	-
G.O. Revenue Bonds of 2004	166,468	-	16,028	150,440	16,000
Compensated Absences	36,558	20,492	20,751	36,299	12,091
Long-Term Liabilities	<u>\$ 1,866,600</u>	<u>\$ 20,492</u>	<u>\$ 140,688</u>	<u>\$ 1,746,404</u>	<u>\$ 133,091</u>

**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; 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 were required to contribute 8.60 percent of their annual covered salary in 2008. That rate increased to 9.40 percent 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 2008 and 2009:

	2008	2009
Public Employees Retirement Fund		
Basic Plan Members	11.78%	11.78%
Coordinated Plan Members	6.50	6.75
Public Employees Police and Fire Fund	12.90	14.10
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2008, 2007, and 2006, 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
2008	\$ 125,899	\$ 39,016	\$ 16,994
2007	119,467	33,190	15,476
2006	115,141	29,577	14,927

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

**KITTSON 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, 2008, were:

	Employee	Employer
Contribution amount	\$ 6,604	\$ 6,604
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

Other Post-Employment Benefits (OPEB)

Beginning in 2008, Kittson County 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 County to calculate and record a net other post-employment benefit obligation (NOPEBO) at December 31, 2008. The NOPEBO is, in general, the cumulative difference between the actuarial required contribution and the actual contributions since January 1, 2008.

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.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits (OPEB) (Continued)

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 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 2008, there were approximately 70 participants in the plan, including four retirees.

Annual OPEB Cost and Net OPEB Obligation

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

Annual Required Contribution	\$	73,031
Interest on net OPEB obligation		-
Adjustments to Annual Required Contribution		-
		-
Annual OPEB cost (expense)	\$	73,031
Contributions made		(10,447)
		(10,447)
Increase in net OPEB obligation	\$	62,584
Net OPEB Obligation - January 1, 2008		-
		-
Net OPEB Obligation - December 31, 2008	\$	62,584

The County's annual OPEB cost for December 31, 2008, was \$73,031. The percentage of annual OPEB cost contributed to the plan was 14 percent, and the net OPEB obligation for 2008 was \$62,584. Trend information for the previous two years is not available at this time based on the implementation date of December 31, 2008.

Fund Status and Funding Progress

As of December 31, 2008, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial liability for benefits was \$612,717, and the actuarial value of assets was zero, resulting in an unfunded actuarial liability (UAAL) of \$612,717. The covered payroll (annual payroll of active employees covered by the plan) was \$2,943,634, and the ratio of the UAAL to the covered payroll was 20.8 percent.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits (OPEB)

Fund Status and Funding Progress (Continued)

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.

The following simplifying assumptions were made:

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

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

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

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

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare and Medicaid Services. A rate of 5.9 percent initially, increased to an ultimate rate of 6.8 percent after six years, was used.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits (OPEB)

Methods and Assumptions (Continued)

Health insurance premiums – 2008 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 3.5 percent investment rate of return (net of investment expense), which is Kittson County's implicit rate of 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 3.5 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, 2008, was thirty years.

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 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, 2023, with a net interest rate of 4.387 percent. As of December 31, 2008, the outstanding balance of this debt is \$1,156,269, net of bond discount, for which the Water System has a commitment of \$778,859 from Marshall County and the cities of Kennedy and Stephen.

B. Contingent Liabilities

The Kittson County Economic Development Authority has potential exposure for a loan default in which the County is fourth-party guarantor, with a maximum exposure of \$137,500.

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.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

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

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 \$410,000 per claim in 2008 and \$430,000 per claim in 2009.

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.

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, Mahnommen, 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.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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.

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 \$55,980 to KaMaR for the year ended December 31, 2008. 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.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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, 2008. 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.

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 \$146,667. 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.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Northwest Minnesota Regional Radio Board

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

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

The Northwest Minnesota Regional Radio Board has no long-term debt. Financing is provided by annual contributions from members, reflective of the extent of participation and use of services. Kittson County did not contribute to the Northwest Regional Radio Board for the year ended December 31, 2008. Complete financial information can be obtained from Greater Northwest Emergency Medical Services, 2301 Johanneson Avenue NW, Suite 103, Bemidji, Minnesota 56601.

Northwest Service Cooperative

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

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

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

**KITTSON COUNTY
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Northwestern Counties Data Processing Security Association

The Northwestern Counties Data Processing Security Association was formed in 1994 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, 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, 2008. Lake of the Woods County, in an agent capacity, reports the cash transactions of the Association as an agency fund on its financial statements. Complete financial information can be obtained from the Lake of the Woods County Auditor's Office, 206 8th Avenue SE, Suite 260, Baudette, MN 56623.

Northwestern Minnesota Household Hazardous Waste Management Group

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

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

**KITTSON COUNTY
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northwestern Minnesota Household Hazardous Waste Management Group (Continued)

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Kittson County contributed \$3,986 to the Waste Management Group for the year ended December 31, 2008. Clearwater County, in an agent capacity, reports the cash transactions of the Waste Management Group as an agency fund on its financial statements. Complete financial information can be obtained from the Clearwater County Auditor's Office or the Waste Management Group's office, P.O. Box 186, Bagley, Minnesota 56621.

Northwestern Minnesota Juvenile Center

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

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

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

Quin County Community Health Service

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

**KITTSON COUNTY
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Quin County Community Health Service (Continued)

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 2008. Complete financial information can be obtained from the Lake of the Woods County Auditor's Office, P.O. Box 808, Baudette, Minnesota 56623.

E. Related Organizations

Joe River Watershed District

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

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

E. Related Organizations (Continued)

Kittson-Marshall Rural Water System

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

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

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

Two Rivers Watershed District

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

F. Jointly-Governed Organizations

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.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations (Continued)

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, Mahnomen, 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 \$54,627 to the Library for the year ended December 31, 2008.

Northwest Workforce Service Area

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

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

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations

Northwest Workforce Service Area (Continued)

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

Roseau River Watershed District

The Roseau River Watershed District was formed pursuant to Minnesota Statute, § 103D.201, effective June 17, 1963, and includes land within Beltrami, Kittson, Lake of the Woods, 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, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,525,416	\$ 1,550,974	\$ 1,574,625	\$ 23,651
Licenses and permits	2,040	2,040	4,225	2,185
Intergovernmental	896,406	980,763	1,171,949	191,186
Charges for services	206,332	224,632	216,187	(8,445)
Fines and forfeitures	6,000	6,000	6,088	88
Investment earnings	383,400	333,825	437,122	103,297
Miscellaneous	111,100	219,500	116,265	(103,235)
Total Revenues	\$ 3,130,694	\$ 3,317,734	\$ 3,526,461	\$ 208,727
Expenditures				
Current				
General government				
Commissioners	\$ 162,533	\$ 199,433	\$ 197,735	\$ 1,698
District court	8,200	11,200	8,656	2,544
Law library	8,000	7,600	10,546	(2,946)
County auditor/treasurer	373,205	378,205	381,572	(3,367)
County assessor	196,057	204,557	207,857	(3,300)
Elections	23,125	37,125	33,948	3,177
Professional services	24,220	24,220	20,953	3,267
Data processing	156,079	111,079	107,154	3,925
Attorney	64,259	69,759	68,367	1,392
Recorder	131,084	149,084	132,136	16,948
Planning and zoning	15,000	15,000	15,000	-
Buildings and grounds	152,956	226,956	261,142	(34,186)
Veterans service officer	23,334	32,834	34,318	(1,484)
Insurance	58,484	58,484	54,484	4,000
Other general government	46,600	38,100	31,524	6,576
Total general government	\$ 1,443,136	\$ 1,563,636	\$ 1,565,392	\$ (1,756)

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

*Schedule 1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 579,643	\$ 605,943	\$ 609,067	\$ (3,124)
Boat and water safety	500	500	-	500
Community corrections	181,423	171,623	163,144	8,479
Coroner	6,500	6,500	3,333	3,167
Enhanced 911	32,500	32,500	28,997	3,503
Emergency management	41,235	41,235	41,022	213
Fire protection	500	500	500	-
Probation and parole	26,000	17,000	10,700	6,300
Safety committee	3,497	3,497	2,765	732
Sentence to serve	11,000	11,000	11,000	-
Stonegarden	-	3,200	4,671	(1,471)
Transmission tower	3,690	3,690	2,968	722
Victim assistance	43,069	44,069	44,400	(331)
Total public safety	\$ 929,557	\$ 941,257	\$ 922,567	\$ 18,690
Sanitation				
Recycling	\$ 63,227	\$ 84,327	\$ 69,147	\$ 15,180
Solid waste	21,325	21,325	22,130	(805)
Total sanitation	\$ 84,552	\$ 105,652	\$ 91,277	\$ 14,375
Health				
Ambulance	\$ 29,068	\$ 29,068	\$ 29,068	\$ -
Hospice	7,500	7,500	7,500	-
Total health	\$ 36,568	\$ 36,568	\$ 36,568	\$ -
Culture and recreation				
Historical society	\$ 48,300	\$ 48,300	\$ 48,300	\$ -
Regional library	54,627	54,627	54,627	-
Snowmobile and ski trails	87,000	121,800	125,085	(3,285)
Veterans organizations	500	500	500	-
Total culture and recreation	\$ 190,427	\$ 225,227	\$ 228,512	\$ (3,285)

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

*Schedule 1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Agricultural inspection	\$ 9,125	\$ 9,125	\$ 9,125	\$ -
Agricultural society	27,500	27,500	27,500	-
County extension	100,829	100,829	100,286	543
Predator and weed control	3,000	3,650	3,631	19
Soil and water conservation	91,425	109,171	114,170	(4,999)
Total conservation of natural resources	\$ 231,879	\$ 250,275	\$ 254,712	\$ (4,437)
Economic development				
Kittson Office of Economic Development	\$ 40,000	\$ 90,000	\$ 90,000	\$ -
Minnesota Red River Valley Development Authority	1,200	1,200	1,200	-
Other economic development	500	500	500	-
Total economic development	\$ 41,700	\$ 91,700	\$ 91,700	\$ -
Total Current Expenditures	\$ 2,957,819	\$ 3,214,315	\$ 3,190,728	\$ 23,587
Capital outlay				
General government	\$ 112,000	\$ 112,000	\$ 109,038	\$ 2,962
Public safety	24,000	24,000	40,016	(16,016)
Total capital outlay	\$ 136,000	\$ 136,000	\$ 149,054	\$ (13,054)
Total Expenditures	\$ 3,093,819	\$ 3,350,315	\$ 3,339,782	\$ 10,533
Excess of Revenues Over (Under) Expenditures	\$ 36,875	\$ (32,581)	\$ 186,679	\$ 219,260
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 1,724	\$ 1,724
Transfers out	-	-	(75,000)	(75,000)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (73,276)	\$ (73,276)
Net Change in Fund Balance	\$ 36,875	\$ (32,581)	\$ 113,403	\$ 145,984
Fund Balance - January 1	5,515,621	5,515,621	5,515,621	-
Fund Balance - December 31	\$ 5,552,496	\$ 5,483,040	\$ 5,629,024	\$ 145,984

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 367,068	\$ 367,068	\$ 382,844	\$ 15,776
Intergovernmental	4,818,735	4,091,904	3,456,461	(635,443)
Charges for services	580,000	438,200	1,338,955	900,755
Miscellaneous	265,450	314,670	101,550	(213,120)
Total Revenues	\$ 6,031,253	\$ 5,211,842	\$ 5,279,810	\$ 67,968
Expenditures				
Current				
Highways and streets				
Administration	\$ 458,312	\$ 502,563	\$ 444,403	\$ 58,160
Engineering	653,720	425,591	479,732	(54,141)
Maintenance	1,294,179	797,469	785,461	12,008
Construction	3,021,100	3,021,100	3,015,647	5,453
Equipment maintenance and shop	415,046	612,446	565,095	47,351
Township roads	-	-	318,860	(318,860)
Total current	\$ 5,842,357	\$ 5,359,169	\$ 5,609,198	\$ (250,029)
Capital outlay				
Highways and streets	198,851	198,851	178,762	20,089
Total Expenditures	\$ 6,041,208	\$ 5,558,020	\$ 5,787,960	\$ (229,940)
Excess of Revenues Over (Under) Expenditures	\$ (9,955)	\$ (346,178)	\$ (508,150)	\$ (161,972)
Other Financing Sources (Uses)				
Transfers in	-	-	75,000	75,000
Net Change in Fund Balance	\$ (9,955)	\$ (346,178)	\$ (433,150)	\$ (86,972)
Fund Balance - January 1	360,208	360,208	360,208	-
Increase (decrease) in reserved for inventories	-	-	(23,515)	(23,515)
Fund Balance - December 31	\$ 350,253	\$ 14,030	\$ (96,457)	\$ (110,487)

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 413,700	\$ 413,700	\$ 413,008	\$ (692)
Intergovernmental	660,831	753,107	777,682	24,575
Charges for services	99,839	99,839	127,615	27,776
Investment earnings	1,500	1,500	1,570	70
Miscellaneous	56,260	56,260	77,976	21,716
Total Revenues	\$ 1,232,130	\$ 1,324,406	\$ 1,397,851	\$ 73,445
Expenditures				
Current				
Human services				
Income maintenance	\$ 383,510	\$ 407,110	\$ 410,556	\$ (3,446)
Social services	831,010	759,010	769,318	(10,308)
Transportation	11,000	20,800	21,702	(902)
Total Current Expenditures	\$ 1,225,520	\$ 1,186,920	\$ 1,201,576	\$ (14,656)
Capital outlay				
Human services	6,610	6,610	21,692	(15,082)
Total Expenditures	\$ 1,232,130	\$ 1,193,530	\$ 1,223,268	\$ (29,738)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ 130,876	\$ 174,583	\$ 43,707
Fund Balance - January 1	1,264,618	1,264,618	1,264,618	-
Fund Balance - December 31	\$ 1,264,618	\$ 1,395,494	\$ 1,439,201	\$ 43,707

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 4

**SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2008**

<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%

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 5

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2008**

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Net OPEB Obligation</u>	<u>Percentage Contributed</u>
December 31, 2008	\$ 73,031	\$ 10,447	\$ 62,584	14%

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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, 2008:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Law library	\$ 10,546	\$ 7,600	\$ (2,946)
County auditor/treasurer	381,572	378,205	(3,367)
County assessor	207,857	204,557	(3,300)
Buildings and grounds	261,142	226,956	(34,186)
Veterans service officer	34,318	32,834	(1,484)
Public safety			
Sheriff	609,067	605,943	(3,124)
Stonegarden	4,671	3,200	(1,471)
Victim assistance	44,400	44,069	(331)
Sanitation			
Solid waste	22,130	21,325	(805)
Culture and recreation			
Snowmobile and ski trails	125,085	121,800	(3,285)
Conservation of natural resources			
Soil and water conservation	114,170	109,171	(4,999)
Capital outlay			
Public safety	40,016	24,000	(16,016)

**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	\$ 479,732	\$ 425,591	\$ (54,141)
Township roads	318,860	-	(318,860)
Social Services Special Revenue Fund			
Human services			
Income maintenance	410,556	407,110	(3,446)
Social services	769,318	759,010	(10,308)
Transportation	21,702	20,800	(902)
Capital outlay			
Human services	21,692	6,610	(15,082)

II. Other Post-Employment Benefits (OPEB)

December 31, 2008 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

**KITTSON 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, 2008**

	<u>Ditch</u>	<u>Forfeited Tax Sale</u>
<u>Assets</u>		
Cash and pooled deposits and investments	\$ 333,746	\$ 8,755
Taxes receivable - prior	-	-
Special assessments receivable - prior	1,580	-
Due from other governments	142,652	-
Total Assets	<u>\$ 477,978</u>	<u>\$ 8,755</u>
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ -	\$ -
Due to other funds	-	1,724
Due to other governments	5,488	7,031
Deferred revenue - unavailable	135,065	-
Advances from other funds	105,299	-
Total Liabilities	<u>\$ 245,852</u>	<u>\$ 8,755</u>
Fund Balances		
Reserved for public assistance	\$ -	\$ -
Unreserved		
Designated for		
Cash flows	26,458	-
Debt service	-	-
Undesignated	205,668	-
Total Fund Balances	<u>\$ 232,126</u>	<u>\$ -</u>
Total Liabilities and Fund Balances	<u>\$ 477,978</u>	<u>\$ 8,755</u>

Statement 1

Government Commitment	Special Revenue Funds		Total Nonmajor Special Revenue Funds (Exhibit 3)
	Health Insurance	Unorganized Townships	
\$ 8,894	\$ 100	\$ 169,302	\$ 520,797
-	-	190	190
-	-	-	1,580
-	-	8,342	150,994
<u>\$ 8,894</u>	<u>\$ 100</u>	<u>\$ 177,834</u>	<u>\$ 673,561</u>
\$ -	\$ -	\$ 195	\$ 195
-	-	2,601	4,325
-	-	-	12,519
-	-	8,493	143,558
-	-	-	105,299
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,289</u>	<u>\$ 265,896</u>
\$ -	\$ -	\$ 17,307	\$ 17,307
-	-	-	26,458
8,894	-	-	8,894
-	100	149,238	355,006
<u>\$ 8,894</u>	<u>\$ 100</u>	<u>\$ 166,545</u>	<u>\$ 407,665</u>
<u>\$ 8,894</u>	<u>\$ 100</u>	<u>\$ 177,834</u>	<u>\$ 673,561</u>

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Ditch</u>	<u>Forfeited Tax Sale</u>
Revenues		
Taxes	\$ -	\$ -
Special assessments	113,834	-
Intergovernmental	56,720	-
Charges for services	7,191	-
Land and timber sales	-	1,829
Miscellaneous	-	-
Total Revenues	\$ 177,745	\$ 1,829
Expenditures		
Current		
General government	\$ -	\$ -
Public safety	-	-
Highways and streets	-	-
Conservation of natural resources	109,262	105
Total Expenditures	\$ 109,262	\$ 105
Debt service		
Interest	\$ 7,961	\$ -
Total Expenditures	\$ 117,223	\$ 105
Excess of Revenues Over (Under) Expenditures	\$ 60,522	\$ 1,724
Other Financing Sources (Uses)		
Transfers out	-	(1,724)
Net Change in Fund Balance	\$ 60,522	\$ -
Fund Balance - January 1	171,604	-
Fund Balance - December 31	\$ 232,126	\$ -

Statement 2

Government Commitment	Special Revenue Funds		Unorganized Townships	Total Nonmajor Special Revenue Funds (Exhibit 5)
	Health Insurance			
\$ -	\$ -		\$ 23,634	\$ 23,634
-	-		-	113,834
-	-		24,954	81,674
-	-		-	7,191
-	-		-	1,829
-	480,262		20	480,282
\$ -	\$ 480,262		\$ 48,608	\$ 708,444
\$ -	\$ 516,677		\$ -	\$ 516,677
-	-		4,369	4,369
-	-		61,136	61,136
-	-		-	109,367
\$ -	\$ 516,677		\$ 65,505	\$ 691,549
\$ -	\$ -		\$ -	\$ 7,961
\$ -	\$ 516,677		\$ 65,505	\$ 699,510
\$ -	\$ (36,415)		\$ (16,897)	\$ 8,934
-	-		-	(1,724)
\$ -	\$ (36,415)		\$ (16,897)	\$ 7,210
8,894	36,515		183,442	400,455
\$ 8,894	\$ 100		\$ 166,545	\$ 407,665

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special assessments	\$ 113,000	\$ 113,000	\$ 113,834	\$ 834
Intergovernmental	-	-	56,720	56,720
Charges for services	-	-	7,191	7,191
Total Revenues	\$ 113,000	\$ 113,000	\$ 177,745	\$ 64,745
Expenditures				
Current				
Conservation of natural resources				
Administration	\$ 509	\$ 509	\$ 104	\$ 405
Maintenance and repairs	101,641	166,981	109,158	57,823
Total conservation of natural resources	\$ 102,150	\$ 167,490	\$ 109,262	\$ 58,228
Debt service				
Interest	-	-	7,961	(7,961)
Total Expenditures	\$ 102,150	\$ 167,490	\$ 117,223	\$ 50,267
Excess of Revenues Over (Under) Expenditures	\$ 10,850	\$ (54,490)	\$ 60,522	\$ 115,012
Fund Balance - January 1	171,604	171,604	171,604	-
Fund Balance - December 31	\$ 182,454	\$ 117,114	\$ 232,126	\$ 115,012

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Land and timber sales	\$ 8,600	\$ 8,600	\$ 1,829	\$ (6,771)
Miscellaneous	-	-	-	-
Total Revenues	\$ 8,600	\$ 8,600	\$ 1,829	\$ (6,771)
Expenditures				
Current				
Conservation of natural resources				
Forfeited land	\$ 5,700	\$ 5,700	\$ 105	\$ 5,595
Excess of Revenues Over (Under)				
Expenditures	\$ 2,900	\$ 2,900	\$ 1,724	\$ (1,176)
Other Financing Sources (Uses)				
Transfers out	(18,500)	(18,500)	(1,724)	16,776
Net Change in Fund Balance	\$ (15,600)	\$ (15,600)	\$ -	\$ 15,600
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ (15,600)	\$ (15,600)	\$ -	\$ 15,600

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
HEALTH INSURANCE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ 495,175	\$ 495,175	\$ 480,262	\$ (14,913)
Expenditures				
Current				
General government				
Insurance	495,175	495,175	516,677	(21,502)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (36,415)	\$ (36,415)
Fund Balance - January 1	36,515	36,515	36,515	-
Fund Balance - December 31	<u>\$ 36,515</u>	<u>\$ 36,515</u>	<u>\$ 100</u>	<u>\$ (36,415)</u>

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 9

**BUDGETARY COMPARISON SCHEDULE
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ -	\$ -	\$ 23,634	\$ 23,634
Intergovernmental	48,537	48,537	24,954	(23,583)
Miscellaneous	-	-	20	20
Total Revenues	\$ 48,537	\$ 48,537	\$ 48,608	\$ 71
Expenditures				
Current				
Public safety				
Fire protection	\$ 4,369	\$ 4,369	\$ 4,369	\$ -
Highways and streets				
Township roads	\$ 50,966	\$ 50,966	\$ 61,136	\$ (10,170)
Total Expenditures	\$ 55,335	\$ 55,335	\$ 65,505	\$ (10,170)
Excess of Revenues Over (Under) Expenditures	\$ (6,798)	\$ (6,798)	\$ (16,897)	\$ (10,099)
Fund Balance - January 1	183,442	183,442	183,442	-
Fund Balance - December 31	\$ 176,644	\$ 176,644	\$ 166,545	\$ (10,099)

**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.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled deposits and investments	\$ 42,346	\$ 3,725,540	\$ 3,740,314	\$ 27,572
<u>Liabilities</u>				
Due to other governments	\$ 42,346	\$ 3,725,540	\$ 3,740,314	\$ 27,572
 <u>FLEXIBLE BENEFITS</u>				
<u>Assets</u>				
Cash and pooled deposits and investments	\$ 8,404	\$ 56,617	\$ 56,047	\$ 8,974
<u>Liabilities</u>				
Accounts payable	\$ 8,404	\$ 56,617	\$ 56,047	\$ 8,974
 <u>KAMAR SOLID WASTE</u>				
<u>Assets</u>				
Cash and pooled deposits and investments	\$ 98,270	\$ 416,012	\$ 365,136	\$ 149,146
<u>Liabilities</u>				
Due to other governments	\$ 98,270	\$ 416,012	\$ 365,136	\$ 149,146
 <u>KITTSOON COUNTY CHILDREN'S COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled deposits and investments	\$ 99,810	\$ 51	\$ 28,242	\$ 71,619
<u>Liabilities</u>				
Accounts payable	\$ 99,810	\$ 51	\$ 28,242	\$ 71,619

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Balance January 1	Additions	Deductions	Balance December 31
<u>KITTSOON COUNTY ECONOMIC DEVELOPMENT AUTHORITY</u>				
<u>Assets</u>				
Cash and pooled deposits and investments	\$ -	\$ 340,214	\$ 74,295	\$ 265,919
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 340,214	\$ 74,295	\$ 265,919
 <u>KITTSOON-MARSHALL RURAL WATER SYSTEM</u>				
<u>Assets</u>				
Cash and pooled deposits and investments	\$ 47,057	\$ 7,155	\$ 536	\$ 53,676
<u>Liabilities</u>				
Due to other governments	\$ 47,057	\$ 7,155	\$ 536	\$ 53,676
 <u>MAR-KIT LANDFILL</u>				
<u>Assets</u>				
Cash and pooled deposits and investments	\$ 759,283	\$ 3,313,359	\$ 3,121,214	\$ 951,428
<u>Liabilities</u>				
Due to other governments	\$ 759,283	\$ 3,313,359	\$ 3,121,214	\$ 951,428
 <u>PREPAID TAXES</u>				
<u>Assets</u>				
Cash and pooled deposits and investments	\$ 3,225	\$ -	\$ -	\$ 3,225
<u>Liabilities</u>				
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, 2008**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE</u>				
<u>Assets</u>				
Cash and pooled deposits and investments	<u>\$ 13,467</u>	<u>\$ 1,047,800</u>	<u>\$ 1,049,019</u>	<u>\$ 12,248</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 13,467</u>	<u>\$ 1,047,800</u>	<u>\$ 1,049,019</u>	<u>\$ 12,248</u>
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled deposits and investments	<u>\$ 112,704</u>	<u>\$ 4,372,896</u>	<u>\$ 4,332,051</u>	<u>\$ 153,549</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 112,704</u>	<u>\$ 4,372,896</u>	<u>\$ 4,332,051</u>	<u>\$ 153,549</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled deposits and investments	<u>\$ 1,184,566</u>	<u>\$ 13,279,644</u>	<u>\$ 12,766,854</u>	<u>\$ 1,697,356</u>
<u>Liabilities</u>				
Accounts payable	\$ 108,214	\$ 396,882	\$ 158,584	\$ 346,512
Due to other governments	<u>1,076,352</u>	<u>12,882,762</u>	<u>12,608,270</u>	<u>1,350,844</u>
Total Liabilities	<u>\$ 1,184,566</u>	<u>\$ 13,279,644</u>	<u>\$ 12,766,854</u>	<u>\$ 1,697,356</u>

OTHER SCHEDULES

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2008**

	Assets			
	Cash and Pooled Investments	Special Assessments Receivable - Prior	Due from Other Governments	Total
County Ditches				
1	\$ 30	\$ 118	\$ 77,802	\$ 77,950
4	19,116	15	1,902	21,033
8	13,767	-	556	14,323
9	8,882	70	-	8,952
11	11,955	-	-	11,955
12	15,586	-	1,136	16,722
13	7,205	-	-	7,205
14	8,069	18	-	8,087
15	11,754	4	-	11,758
16	11,511	-	-	11,511
17	10,217	-	-	10,217
18	5,382	-	-	5,382
19	13,343	-	5,444	18,787
20	101	-	-	101
21	-	-	829	829
22	17,017	-	-	17,017
23	9,967	-	-	9,967
25	14,060	-	834	14,894
26	4,568	-	-	4,568
27	10,316	-	5,943	16,259
28	9,039	-	-	9,039
29	19,057	-	2,395	21,452
30	4,155	-	-	4,155
31	10,822	67	-	10,889
33	3,052	-	-	3,052
Joint County Ditches				
31	7,433	37	-	7,470
32	288	-	-	288
33	11,192	-	-	11,192
State Ditches				
1	286	709	35,773	36,768
48R	14,507	-	-	14,507
50	1,527	-	-	1,527
72	185	-	4,780	4,965
84	7,869	415	-	8,284
85	17,944	-	-	17,944
90	9,609	101	1,433	11,143
95	24,387	26	3,825	28,238
Two Rivers Watershed				
County Ditch 10	(291)	-	-	(291)
Joint County Ditch 3	(54)	-	-	(54)
State Ditch 49	(107)	-	-	(107)
Total	\$ 333,746	\$ 1,580	\$ 142,652	\$ 477,978

Schedule 10

<u>Due to Other Governments</u>	<u>Deferred Revenue Unavailable</u>	<u>Advances from Other Funds</u>	<u>Total</u>	<u>Fund Balances Unreserved Undesignated</u>	<u>Total Liabilities and Fund Balances</u>
\$ -	\$ 77,802	\$ 23,923	\$ 101,725	\$ (23,775)	\$ 77,950
-	1,914	-	1,914	19,119	21,033
-	556	-	556	13,767	14,323
-	-	-	-	8,952	8,952
-	-	-	-	11,955	11,955
-	1,136	-	1,136	15,586	16,722
-	-	-	-	7,205	7,205
-	18	-	18	8,069	8,087
-	-	-	-	11,758	11,758
-	-	-	-	11,511	11,511
-	-	-	-	10,217	10,217
-	-	-	-	5,382	5,382
-	5,444	-	5,444	13,343	18,787
-	-	34,871	34,871	(34,770)	101
-	829	8,135	8,964	(8,135)	829
-	-	-	-	17,017	17,017
-	-	-	-	9,967	9,967
-	834	-	834	14,060	14,894
-	-	-	-	4,568	4,568
-	5,943	-	5,943	10,316	16,259
-	-	-	-	9,039	9,039
-	2,395	-	2,395	19,057	21,452
-	-	-	-	4,155	4,155
-	-	-	-	10,889	10,889
-	-	-	-	3,052	3,052
-	5	-	5	7,465	7,470
-	-	-	-	288	288
-	-	-	-	11,192	11,192
-	35,773	31,506	67,279	(30,511)	36,768
-	-	-	-	14,507	14,507
-	-	-	-	1,527	1,527
5,488	-	6,864	12,352	(7,387)	4,965
-	413	-	413	7,871	8,284
-	(32)	-	(32)	17,976	17,944
-	20	-	20	11,123	11,143
-	2,015	-	2,015	26,223	28,238
-	-	-	-	(291)	(291)
-	-	-	-	(54)	(54)
-	-	-	-	(107)	(107)
\$ 5,488	\$ 135,065	\$ 105,299	\$ 245,852	\$ 232,126	\$ 477,978

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 11

**BALANCE SHEET - BY UNORGANIZED TOWNSHIP
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND
DECEMBER 31, 2008**

	<u>Klondike</u>	<u>McKinley</u>	<u>North Red River</u>	<u>Peatland</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled deposits and investments	\$ 26,740	\$ 54,571	\$ 41,744	\$ 46,247	\$ 169,302
Taxes receivable - prior	125	65	-	-	190
Due from other governments	-	-	8,342	-	8,342
Total Assets	<u>\$ 26,865</u>	<u>\$ 54,636</u>	<u>\$ 50,086</u>	<u>\$ 46,247</u>	<u>\$ 177,834</u>
<u>Liabilities and Fund Balance</u>					
Liabilities					
Accounts payable	\$ -	\$ 194	\$ -	\$ -	\$ 194
Due to other funds	839	964	781	17	2,601
Deferred revenue - unavailable	90	61	8,342	-	8,493
Total Liabilities	<u>\$ 929</u>	<u>\$ 1,219</u>	<u>\$ 9,123</u>	<u>\$ 17</u>	<u>\$ 11,288</u>
Fund Balance	<u>25,936</u>	<u>53,417</u>	<u>40,963</u>	<u>46,230</u>	<u>166,546</u>
Total Liabilities and Fund Balance	<u>\$ 26,865</u>	<u>\$ 54,636</u>	<u>\$ 50,086</u>	<u>\$ 46,247</u>	<u>\$ 177,834</u>

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 12

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Primary Government
Shared Revenue	
State	
County program aid	\$ 349,510
Disparity reduction aid	4,422
Enhanced 911	75,660
Highway users tax	3,374,882
Market value credit	172,366
PERA rate reimbursement	12,305
Police state aid	33,190
	\$ 4,022,335
Payments	
Payments in lieu of taxes	\$ 161,767
Grants	
Local	
Markit Landfill	\$ 141,000
State	
Minnesota Department/Board of	
Corrections	\$ 4,875
Human Services	267,409
Natural Resources	125,085
Peace Officers	2,003
Public Safety	35,136
Transportation	5,834
Pollution Control Agency	55,000
Veterans affairs	2,500
Water and Soil Resources	120,467
	\$ 618,309
Federal	
Department of	
Agriculture	\$ 32,498
Justice	16,740
Health and Human Services	414,719
Homeland Security	80,398
	\$ 544,355
Total Federal	\$ 544,355
Total Grants	\$ 1,303,664
Total Intergovernmental Revenue	\$ 5,487,766

MANAGEMENT AND COMPLIANCE SECTION

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 13

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Kittson County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program was reported in the "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 program 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 program was Medical Assistance Program, CFDA # 93.778.
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Kittson County was determined to be a low-risk auditee.

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.

Segregation of duties was previously a reportable condition which has now been redefined under *Statement of Auditing Standards 112* as a control deficiency. A control deficiency 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 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.

County's Response:

The County has been working with a consulting service to stay in compliance with SAS 112 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.

ITEM ARISING THIS YEAR

08-1 Audit Adjustments

During our audit, we identified material adjustments in the Road and Bridge Special Revenue Fund. Recommended audit adjustments to the Road and Bridge Special Revenue Fund included \$318,860 in town road funds that were not recognized by the County as revenues or expenditures, and \$1,150,000 in Highway Users Tax Allotment due from the Minnesota Department of Transportation at year end with the corresponding credit in deferred revenue. These adjustments resulted in significant changes to amounts in the County's financial statements.

County officials are aware that audit adjustments are made to revenues and expenditures, and they rely on the independent external auditors to assist in making the necessary adjustments to the financial statements. Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

A control deficiency 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 misstatements of the financial statements on a timely basis. Statement on Auditing Standards (SAS) No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the County's internal controls, even if management subsequently corrects the misstatement.

We recommend the County establish internal control procedures for analysis and review of revenue and expenditure classifications and accruals to ensure these transactions are reported in accordance with GAAP in the County's annual financial statement.

County's Response:

The County will continue to educate and train its financial personnel whenever possible to ensure proper classification of transactions in accordance with GAAP.

III. OTHER FINDINGS AND RESPONSES

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-3 Ditch Unreserved, Undesignated Fund Balances

Eight of the 39 active individual ditch funds had deficit unreserved, undesignated fund balances as of December 31, 2008. The individual ditch fund deficits totaled \$105,030, with the largest individual ditch fund deficit being \$34,770.

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

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

County's Response:

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

ITEM ARISING THIS YEAR

08-2 Road and Bridge Special Revenue Fund Balance Deficit

At December 31, 2008, the Road and Bridge Special Revenue Fund had a deficit unreserved, undesignated fund balance of \$546,056, with a deficit total fund balance of \$96,457.

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
Gordon Dale, CPA
Audrey Swenson, CPA

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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, 2008, and have issued our report dated August 14, 2009. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs, items 96-1, 07-1, and 08-1 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Kittson County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 08-1 to be a material weakness.

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 found in the accompanying Schedule of Findings and Questioned Costs and have not been subjected to any procedures applied in the audit of the financial statements 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

August 14, 2009



Colleen Hoffman, Manager
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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 program for the year ended December 31, 2008. The County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program 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 program for the year ended December 31, 2008.

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, 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 control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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, 2008, and have issued our report thereon dated August 14, 2009. Our audit was performed for the purpose of forming opinions on the financial statements taken as a whole. 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

August 14, 2009

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 14

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	\$ 32,498
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Crime Victim Assistance	16.575	\$ 16,740
U.S. Department of Election Assistance Commission		
Passed Through Minnesota Department of Secretary of State Help America Vote Act	90.401	\$ 21,749
U.S. Department of Health and Human Services		
Passed Through Northwest Regional Development Commission Special Programs for the Aging - Title III B	93.044	\$ 2,611
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	1,521
Temporary Assistance for Needy Families	93.558	42,922
Child Support Enforcement	93.563	68,460
Refugee and Entrant Assistance	93.566	83
Child Care and Development Block Grant	93.575	6,723
Child Care Mandatory and Matching Funds	93.596	6,844
Foster Care Title IV-E	93.658	8,801
Social Services Block Grant	93.667	62,830
Chafee Foster Care Independence Program	93.674	202
State Children's Insurance Program	93.767	93
Medical Assistance Program	93.778	213,378
Block Grants for Community Mental Health Services	93.958	251
Total U.S. Department of Health and Human Services		\$ 414,719

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**Schedule 14
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance	97.036	\$ 58,840
Emergency Management Performance Grants	97.042	10,058
Direct Homeland Security Grant Program	97.067	23,073
Total U.S. Department of Homeland Security		\$ 91,971
Total Federal Awards		\$ 577,677

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Kittson County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the basis of accounting used by the individual funds of the County. Governmental funds use the modified accrual basis of accounting.
3. There were no pass-through grants to subrecipients or other agencies in 2008.

4. Reconciliation to Schedule of Intergovernmental Revenues		
Federal grant revenue per Schedule of Intergovernmental Revenues		\$ 544,355
Public Assistance grant expended in 2008 for revenues recognized in previous years		11,573
Help America Vote Act grant expended in 2008 for revenues recognized in previous years		21,749
Expenditures Per Schedule of Expenditures of Federal Awards		<u>\$ 577,677</u>