

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

YEAR ENDED DECEMBER 31, 2007

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

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**KITTSOON COUNTY
HALLOCK, MINNESOTA**

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INTRODUCTORY SECTION

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2007**

| <u>Office</u> | <u>Name</u> | <u>Term Expires</u> |
|--------------------------|------------------------|---------------------|
| Commissioners | | |
| 1 st District | Craig Spilde | January 2009 |
| 2 nd District | John Anderson | January 2009 |
| 3 rd District | Joe Bouvette, Chair | January 2011 |
| 4 th District | Leon Olson | January 2009 |
| 5 th District | Betty Younggren | January 2011 |
| | | |
| Officers | | |
| Elected: | | |
| Attorney | Roger Malm | January 2011 |
| Auditor/Treasurer | Marilyn Gustafson | January 2011 |
| Recorder | Janice Klein * | January 2011 |
| Sheriff | Kenny Hultgren | January 2011 |
| | | |
| Appointed: | | |
| Assessor | Marian Paulson | December 2008 |
| Highway Engineer | Kelly Bengtson | Indefinite |
| Medical Examiner | Roland Larter, M.D. ** | Indefinite |
| Veterans Service Officer | Bob Cameron | May 2009 |
| Environmental Officer | Gary Rice | Indefinite |
| Social Services Director | Kathleen Johnson | Indefinite |

* Replaced by Kristin Hultgren in 2008.

** Replaced by Mary Ann Sens in 2008.

FINANCIAL SECTION



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

GOVERNMENTAL AUDIT SERVICES

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Kittson County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kittson County, Minnesota, as of and for the year ended December 31, 2007, 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, 2007, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2008, 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

September 8, 2008



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, 2007. 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 \$54,650,672, of which \$46,439,472 is invested in capital assets, net of related debt, \$1,645,009 is restricted for specific purposes, and \$6,566,191 is unrestricted. The total net assets of governmental activities increased by \$596,911 for the year ended December 31, 2007. This is attributed primarily to highway construction projects financed by County State Aid Highway funding.

At the close of 2007, the County's governmental funds reported combined ending fund balances of \$7,540,902, an increase of \$342,410 from the prior year. Of the total fund balance amount, \$1,150,199 is legally or contractually reserved, \$4,303,195 is designated for specific purposes for 2008, and an additional \$2,087,508 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, the Social Services Special Revenue Fund, and the Ditch Special

Revenue Fund, all of which are considered to be major funds. Data from the other four 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 68 of this report.

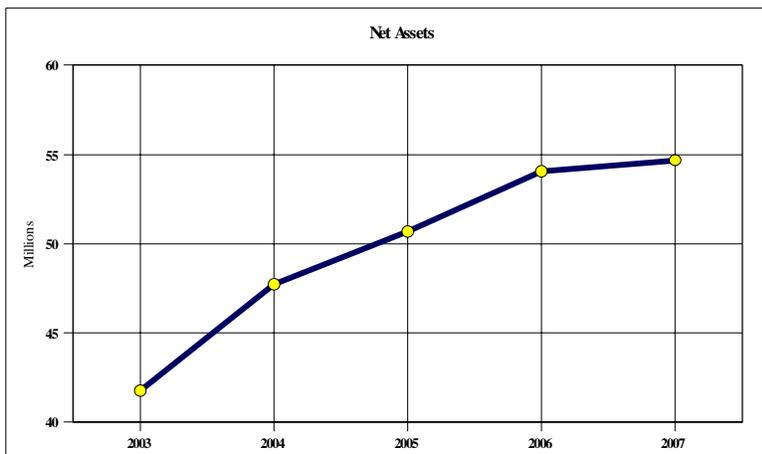
Notes to the Financial Statements

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 \$54,650,672 at the close of 2007. 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 three percent of the County's net assets are restricted and 12 percent of the County's net assets are unrestricted. The unrestricted net asset amount of \$6,566,191, as of December 31, 2007, 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 \$625,829, from the prior year, primarily due to the continued construction of various highways projects. Total liabilities increased by \$28,918, from the prior year, mainly due to an increase in vested compensated absences. This resulted in increased net assets of \$596,911 from the prior year.

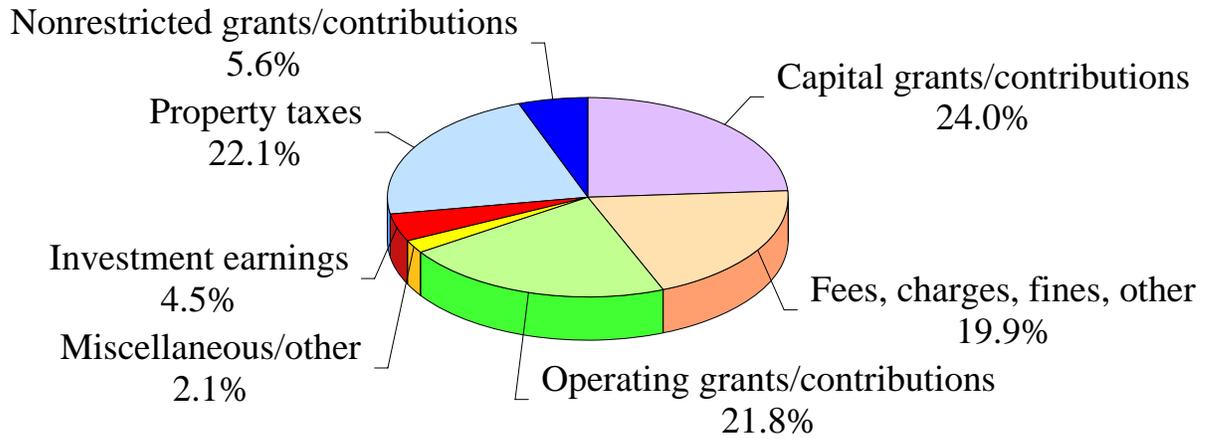
NET ASSETS

| | Governmental Activities | |
|---|-------------------------|----------------------|
| | 2007 | 2006 |
| Current and other assets | \$ 9,017,191 | \$ 9,002,934 |
| Capital assets | <u>46,439,472</u> | <u>45,827,900</u> |
| Total assets | <u>\$ 55,456,663</u> | <u>\$ 54,830,834</u> |
| Other liabilities | \$ 415,761 | \$ 424,115 |
| Long-term liabilities outstanding | <u>390,230</u> | <u>352,958</u> |
| Total liabilities | <u>\$ 805,991</u> | <u>\$ 777,073</u> |
| Net assets | | |
| Invested in capital assets, net of related debt | \$ 46,439,472 | \$ 45,827,900 |
| Restricted | 1,645,009 | 2,192,575 |
| Unrestricted | <u>6,566,191</u> | <u>6,033,286</u> |
| Total net assets | <u>\$ 54,650,672</u> | <u>\$ 54,053,761</u> |

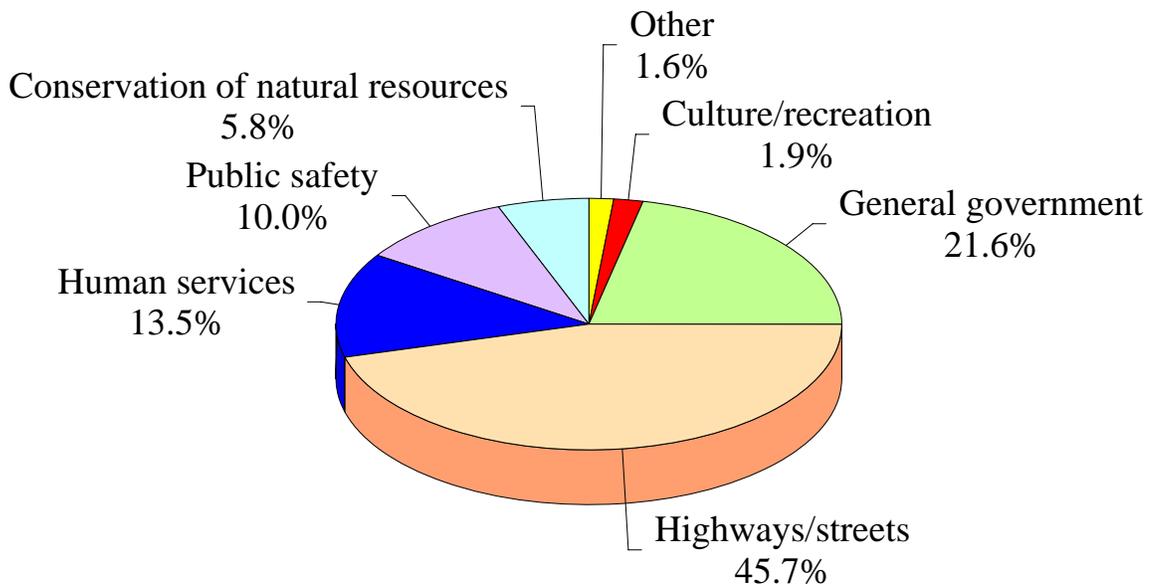
CHANGES IN NET ASSETS

| | Governmental Activities | |
|--|-------------------------|----------------------|
| | 2007 | 2006 |
| Revenues | | |
| Program revenues | | |
| Charges for services | \$ 2,031,617 | \$ 1,305,872 |
| Operating grants and contributions | 2,229,949 | 2,398,778 |
| Capital grants and contributions | 2,448,022 | 4,394,900 |
| General revenues | | |
| Property taxes | 2,258,531 | 2,099,187 |
| Grants and contributions not restricted to specific programs | 572,015 | 637,438 |
| Payments in lieu of tax | 156,874 | 145,467 |
| Insurance dividends | 56,680 | 49,299 |
| Investment earnings | 459,226 | 437,024 |
| Loss from sale of capital assets | - | (8,459) |
| Total revenues | <u>\$ 1,021,914</u> | <u>\$ 11,459,506</u> |
| Expenses | | |
| General government | \$ 2,074,301 | \$ 1,433,814 |
| Public safety | 956,907 | 907,977 |
| Highways and streets | 4,397,593 | 3,871,734 |
| Sanitation | 100,060 | 77,089 |
| Human services | 1,294,253 | 1,154,609 |
| Health | 36,568 | 36,568 |
| Culture and recreation | 179,677 | 172,114 |
| Conservation of natural resources | 559,614 | 413,573 |
| Economic development | 13,600 | 12,216 |
| Interest | <u>3,430</u> | <u>-</u> |
| Total expenses | <u>\$ 9,616,003</u> | <u>\$ 8,079,694</u> |
| Increase (decrease) in net assets | \$ 596,911 | \$ 3,379,812 |
| Net assets, January 1 | <u>54,053,761</u> | <u>50,673,949</u> |
| Net assets, December 31 | <u>\$ 54,650,672</u> | <u>\$ 54,053,761</u> |

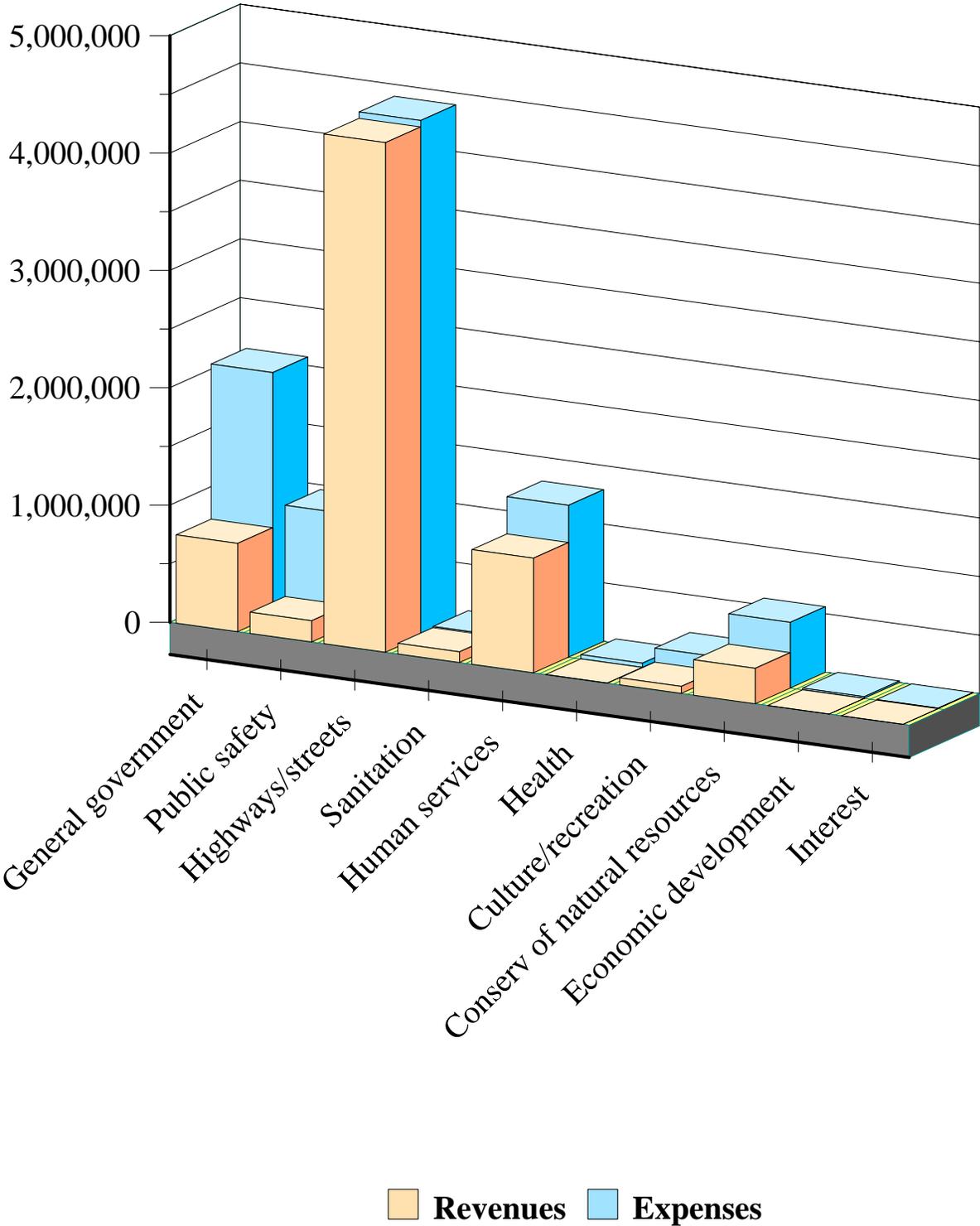
Revenues by Source



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 2007, the County's governmental funds reported combined ending fund balances of \$7,540,902. Of this amount, approximately 15 percent constitutes legally or contractually reserved fund balance, 57 percent constitutes specifically designated fund balance, and 28 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 \$5,515,621. The General Fund's reserved fund balance was \$657,392, unreserved, designated fund balance was \$3,450,913, and the unreserved, undesignated fund balance was \$1,407,316. 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 2007. Unreserved fund balance represents about 165 percent of total General Fund expenditures, while total fund balance represents 187 percent of that same amount.

In 2007, the fund balance amount in the General Fund increased by \$371,158, primarily due to increased investment earnings, uncompleted building projects, unexpected revenues, and a decrease in budgeted expenditures.

The fund balance of the Road and Bridge Special Revenue Fund decreased by \$94,966 in 2007, due to increased fuel costs and contract overruns.

The fund balance of the Social Services Special Revenue Fund increased \$105,615 from the prior year due to a large increase in Medical Assistance recoveries and other unexpected revenues.

The fund balance of the Ditch Special Revenue Fund decreased \$77,320 from the prior year due to unexpected ditch repairs.

GENERAL FUND BUDGETARY HIGHLIGHTS

The budget amendments in 2007 consisted of an overall increase in budgeted revenues of \$379,591, due to increased investment earnings and the receipt of E-911 grant monies. The budget amendments in 2007 also consisted of an overall increase in budgeted expenditures of \$141,006, due to Homeland Security grant purchases, unanticipated legal expenses, and increased appropriations to KaMaR Solid Waste for operations.

Actual revenues were less than overall final budgeted revenues by \$9,533. Actual expenditures were less than overall final budgeted expenditures by \$141,420.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2007, amounted to \$46,439,472 (net of accumulated depreciation). The total increase in the County's investment in capital assets for the current fiscal year was one percent. This was primarily due to the continued construction of various highway projects.

| | Governmental Activities | |
|----------------------------|-------------------------|----------------------|
| | 2007 | 2006 |
| Land | \$ 190,821 | \$ 190,821 |
| Construction in progress | 1,111,635 | 267,789 |
| Infrastructure | 43,643,070 | 43,679,214 |
| Buildings and improvements | 351,366 | 385,482 |
| Machinery and equipment | <u>1,142,580</u> | <u>1,304,594</u> |
| Total capital assets | <u>\$ 46,439,472</u> | <u>\$ 45,827,900</u> |

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

Long-term debt

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- Kittson County's unemployment rate was 6.1 percent as of December, 2007. This is higher than the statewide rate of 4.9 percent and the national average rate of 4.8 percent.
- Kittson County's population at July 1, 2005 was 4,792, a decrease of 493 since 2000. This ranks Kittson County 84th of 87 in the State of Minnesota.
- On December 18, 2007, the Kittson County set its 2008 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, 2007**

| | Primary Government Governmental Activities | Discretely Presented Component Unit |
|--|---|--|
| <u>Assets</u> | | |
| Cash and pooled investments | \$ 7,399,461 | \$ 37,752 |
| Investments | 40,000 | - |
| Taxes receivable - prior | 41,254 | - |
| Special assessments receivable - prior | 1,379 | - |
| Accounts receivable | 12,167 | 71,013 |
| Accrued interest receivable | 53,471 | - |
| Due from other governments | 1,205,339 | - |
| Inventories | 264,120 | - |
| Restricted assets | | |
| Cash and pooled investments | - | 303,091 |
| Investments | - | 70,000 |
| Special assessments receivable | | |
| Current | - | 298,344 |
| Prior | - | 28,831 |
| Due from other governments | - | 813,000 |
| Surcharge cash reserved for debt repayment | - | 1,363 |
| Investments reserved for asset replacement | - | 489,266 |
| Surcharge receivable reserved for debt repayment | - | 6,380 |
| Deferred debt issuance costs | - | 8,681 |
| Special assessments receivable - noncurrent | - | 1,167,748 |
| Capital assets | | |
| Non-depreciable | 1,302,456 | 136,994 |
| Depreciable - net of accumulated depreciation | 45,137,016 | 10,521,013 |
| Total Assets | \$ 55,456,663 | \$ 13,953,476 |
| <u>Liabilities</u> | | |
| Accounts payable | \$ 102,345 | \$ 12,759 |
| Salaries payable | 144,724 | - |
| Accrued payroll taxes | - | 7,245 |
| Contracts payable | 132,045 | - |
| Due to other governments | 36,647 | 2,794 |
| Customer deposits | - | 10,380 |
| Payable from restricted assets | | |
| General obligation bonds - current | - | 105,000 |
| Revenue bonds - current | - | 16,000 |
| Long-term liabilities | | |
| Due within one year | 143,642 | 11,520 |
| Due within more than one year | 246,588 | 1,734,080 |
| Total Liabilities | \$ 805,991 | \$ 1,899,778 |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

| | Primary Government Governmental Activities | Discretely Presented Component Unit |
|---|---|--|
| <u>Net Assets</u> | | |
| Invested in capital assets, net of related debt | \$ 46,439,472 | \$ 8,816,539 |
| Restricted for | | |
| General government | 248,191 | - |
| Public safety | 170,741 | - |
| Highways and streets | 1,016,696 | - |
| Conservation of natural resources | 209,381 | - |
| Equipment replacement | - | 489,266 |
| Debt service | - | 374,454 |
| Unrestricted | 6,566,191 | 2,373,439 |
| Total Net Assets | \$ 54,650,672 | \$ 12,053,698 |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Expenses | Fees, Charges, Fines and Other | Program Revenues Operating Grants and Contributions |
|-----------------------------------|---------------------|-----------------------------------|--|
| <u>Functions/Programs</u> | | | |
| Primary Government | | | |
| Governmental activities | | | |
| General government | \$ 2,074,301 | \$ 742,593 | \$ 10,296 |
| Public safety | 956,907 | 35,021 | 146,571 |
| Highways and streets | 4,397,593 | 863,658 | 1,031,650 |
| Sanitation | 100,060 | 200 | 90,903 |
| Human services | 1,294,253 | 326,119 | 651,034 |
| Health | 36,568 | 164 | - |
| Culture and recreation | 179,677 | - | 60,164 |
| Conservation of natural resources | 559,614 | 63,862 | 239,331 |
| Economic development | 13,600 | - | - |
| Interest | 3,430 | - | - |
| | \$ 9,616,003 | \$ 2,031,617 | \$ 2,229,949 |
| Component Unit | | | |
| North Kittson Rural Water System | \$ 733,176 | \$ 422,970 | \$ - |

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 |
| \$ - | \$ (1,321,412) | \$ - |
| - | (775,315) | - |
| 2,448,022 | (54,263) | - |
| - | (8,957) | - |
| - | (317,100) | - |
| - | (36,404) | - |
| - | (119,513) | - |
| - | (256,421) | - |
| - | (13,600) | - |
| - | (3,430) | - |
| \$ 2,448,022 | \$ (2,906,415) | \$ - |
| \$ 371,685 | \$ - | \$ 61,479 |
| | \$ 2,258,531 | \$ - |
| | 572,015 | 307 |
| | 156,874 | - |
| | 56,680 | - |
| | 459,226 | 31,493 |
| | \$ 3,503,326 | \$ 31,800 |
| | \$ 596,911 | \$ 93,279 |
| | 54,053,761 | 11,960,419 |
| | \$ 54,650,672 | \$ 12,053,698 |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

| | General Fund | Special Revenue Funds | | | Other Governmental Funds (Statement 1) | Total Governmental Funds |
|--|---------------------|-----------------------|---------------------|-------------------|---|--------------------------------|
| | | Road and Bridge | Social Services | Ditch | | |
| Assets | | | | | | |
| Cash and pooled investments | \$ 5,380,396 | \$ 246,778 | \$ 1,213,207 | \$ 307,137 | \$ 251,943 | \$ 7,399,461 |
| Investments | - | - | 40,000 | - | - | 40,000 |
| Taxes receivable - prior | 28,482 | 5,823 | 6,936 | - | 13 | 41,254 |
| Special assessments receivable - prior | - | - | - | 1,379 | - | 1,379 |
| Accounts receivable | 50 | 7,905 | 4,212 | - | - | 12,167 |
| Accrued interest receivable | 53,471 | - | - | - | - | 53,471 |
| Due from other funds | 5,217 | 1,496 | - | - | - | 6,713 |
| Due from other governments | 24,921 | 888,138 | 63,833 | 220,105 | 8,342 | 1,205,339 |
| Inventories | - | 264,120 | - | - | - | 264,120 |
| Advances to other funds | 159,234 | - | - | - | - | 159,234 |
| Total Assets | \$ 5,651,771 | \$ 1,414,260 | \$ 1,328,188 | \$ 528,621 | \$ 260,298 | \$ 9,183,138 |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

| | General Fund | Special Revenue Funds | | | Other Governmental Funds (Statement 1) | Total Governmental Funds |
|--|---------------------|-----------------------|---------------------|-------------------|--|--------------------------|
| | | Road and Bridge | Social Services | Ditch | | |
| Liabilities and Fund Balances | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 34,586 | \$ 39,833 | \$ 24,467 | \$ 40 | \$ 3,419 | \$ 102,345 |
| Salaries payable | 73,146 | 45,262 | 26,316 | - | - | 144,724 |
| Contracts payable | - | 132,045 | - | - | - | 132,045 |
| Due to other funds | - | 63 | - | 691 | 5,959 | 6,713 |
| Due to other governments | 8,241 | 1,845 | 7,876 | 4,958 | 13,727 | 36,647 |
| Deferred revenue - unavailable | 20,177 | 835,004 | 4,911 | 192,094 | 8,342 | 1,060,528 |
| Advances from other funds | - | - | - | 159,234 | - | 159,234 |
| Total Liabilities | \$ 136,150 | \$ 1,054,052 | \$ 63,570 | \$ 357,017 | \$ 31,447 | \$ 1,642,236 |
| Fund Balances | | | | | | |
| Reserved for | | | | | | |
| Advances to other funds | \$ 159,234 | \$ - | \$ - | \$ - | \$ - | \$ 159,234 |
| Corrections supervision | 1,540 | - | - | - | - | 1,540 |
| County State Aid Highway Allotment | - | 114,789 | - | - | - | 114,789 |
| DWI assessment | 3,700 | - | - | - | - | 3,700 |
| Enhanced 911 | 159,324 | - | - | - | - | 159,324 |
| Handgun permits | 3,669 | - | - | - | - | 3,669 |
| Help America Vote Act | 184,254 | - | - | - | - | 184,254 |
| Inventories | - | 264,120 | - | - | - | 264,120 |
| Law library | 18,799 | - | - | - | - | 18,799 |
| Missing heirs | 1,067 | - | - | - | - | 1,067 |
| Pit restoration | - | 62,902 | - | - | - | 62,902 |
| Probation | 1,640 | - | - | - | - | 1,640 |
| Public assistance | - | 35,426 | - | - | 15,570 | 50,996 |
| Recorder's equipment | 40,371 | - | - | - | - | 40,371 |
| Sheriff's contingent fund | 921 | - | - | - | - | 921 |
| Sheriff's forfeited property | 2,916 | - | - | - | - | 2,916 |
| Technology | 34,738 | - | - | - | - | 34,738 |
| Vehicle seizures | 3,392 | - | - | - | - | 3,392 |
| Victim assistance | 1,008 | - | - | - | - | 1,008 |
| Water planning | 40,819 | - | - | - | - | 40,819 |
| Unreserved | | | | | | |
| Designated for | | | | | | |
| Buildings | 630,000 | - | 200,000 | - | - | 830,000 |
| Cash flows | 1,201,622 | - | 513,388 | - | - | 1,715,010 |
| Data processing | 238,000 | - | 100,000 | - | - | 338,000 |
| E-911 road signs | 200,000 | - | - | - | - | 200,000 |
| Equipment | 150,000 | - | 30,000 | - | - | 180,000 |
| Geographic Information System | 150,000 | - | - | - | - | 150,000 |
| Insurance | 600,000 | - | - | - | - | 600,000 |
| Landfill | 271,120 | - | - | - | - | 271,120 |
| Local Emergency Planning Commission | 10,171 | - | - | - | - | 10,171 |
| Undesignated | 1,407,316 | (117,029) | 421,230 | 171,604 | - | 1,883,121 |
| Unreserved, reported in nonmajor | | | | | | |
| Special revenue funds | - | - | - | - | 213,281 | 213,281 |
| Total Fund Balances | \$ 5,515,621 | \$ 360,208 | \$ 1,264,618 | \$ 171,604 | \$ 228,851 | \$ 7,540,902 |
| Total Liabilities and Fund Balances | \$ 5,651,771 | \$ 1,414,260 | \$ 1,328,188 | \$ 528,621 | \$ 260,298 | \$ 9,183,138 |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

| | |
|---|------------------------------------|
| Fund balances - total governmental funds (Exhibit 3) | \$ 7,540,902 |
| 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. | 46,439,472 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds. | 1,060,528 |
| Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds. | <u>(390,230)</u> |
| Net assets of governmental activities (Exhibit 1) | <u><u>\$ 54,650,672</u></u> |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | General Fund | Special Revenue Funds | | | Other Government Funds (Statement 2) | Total Governmental Funds |
|---|---------------------|-----------------------|---------------------|--------------------|--------------------------------------|--------------------------|
| | | Road and Bridge | Social Services | Ditch | | |
| Revenues | | | | | | |
| Taxes | \$ 1,539,158 | \$ 332,492 | \$ 371,658 | \$ - | \$ 22,255 | \$ 2,265,563 |
| Special assessments | - | - | - | 158,648 | - | 158,648 |
| Licenses and permits | 3,405 | - | - | - | - | 3,405 |
| Intergovernmental | 948,339 | 3,841,728 | 717,078 | 37,181 | 37,935 | 5,582,261 |
| Charges for services | 184,842 | 775,053 | 89,944 | 44,300 | - | 1,094,139 |
| Fines and forfeitures | 6,229 | - | - | - | - | 6,229 |
| Investment earnings | 457,442 | - | 1,784 | - | - | 459,226 |
| Land and timber sales | - | - | - | - | 16,623 | 16,623 |
| Miscellaneous | 174,898 | 67,308 | 229,865 | - | 474,548 | 946,619 |
| Total Revenues | \$ 3,314,313 | \$ 5,016,581 | \$ 1,410,329 | \$ 240,129 | \$ 551,361 | \$ 10,532,713 |
| Expenditures | | | | | | |
| Current | | | | | | |
| General government | \$ 1,402,608 | \$ - | \$ - | \$ - | \$ 435,814 | \$ 1,838,422 |
| Public safety | 860,490 | - | - | - | 4,331 | 864,821 |
| Highways and streets | - | 4,942,430 | - | - | 53,731 | 4,996,161 |
| Sanitation | 98,940 | - | - | - | - | 98,940 |
| Human services | - | - | 1,304,714 | - | - | 1,304,714 |
| Health | 36,568 | - | - | - | - | 36,568 |
| Culture and recreation | 179,677 | - | - | - | - | 179,677 |
| Conservation of natural resources | 229,486 | - | - | 314,019 | 14,408 | 557,913 |
| Economic development | 13,600 | - | - | - | - | 13,600 |
| Total Current | \$ 2,821,369 | \$ 4,942,430 | \$ 1,304,714 | \$ 314,019 | \$ 508,284 | \$ 9,890,816 |
| Debt Service | | | | | | |
| Interest | \$ - | \$ - | \$ - | \$ 3,430 | \$ - | \$ 3,430 |
| Capital Outlay | | | | | | |
| General government | \$ 59,005 | \$ - | \$ - | \$ - | \$ - | \$ 59,005 |
| Public safety | 67,935 | - | - | - | - | 67,935 |
| Highways and streets | - | 185,665 | - | - | - | 185,665 |
| Total Capital Outlay | \$ 126,940 | \$ 185,665 | \$ - | \$ - | \$ - | \$ 312,605 |
| Total Expenditures | \$ 2,948,309 | \$ 5,128,095 | \$ 1,304,714 | \$ 317,449 | \$ 508,284 | \$ 10,206,851 |
| Excess of Revenues Over (Under) Expenditures | \$ 366,004 | \$ (111,514) | \$ 105,615 | \$ (77,320) | \$ 43,077 | \$ 325,862 |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | General Fund | Special Revenue Funds | | | Other Government Funds (Statement 2) | Total Governmental Funds |
|--|---------------------|-----------------------|---------------------|--------------------|---|--------------------------|
| | | Road and Bridge | Social Services | Ditch | | |
| Other Financing Sources (Uses) | | | | | | |
| Transfers in | \$ 5,154 | \$ - | \$ - | \$ - | \$ - | \$ 5,154 |
| Transfers out | - | - | - | - | (5,154) | (5,154) |
| Total Other Financing Sources (Uses) | \$ 5,154 | \$ - | \$ - | \$ - | \$ (5,154) | \$ - |
| Net Change in Fund Balance | \$ 371,158 | \$ (111,514) | \$ 105,615 | \$ (77,320) | \$ 37,923 | \$ 325,862 |
| Fund Balance - January 1 | 5,144,463 | 455,174 | 1,159,003 | 248,924 | 190,928 | 7,198,492 |
| Increase (decrease) in reserved for inventories | - | 16,548 | - | - | - | 16,548 |
| Fund Balance - December 31 | \$ 5,515,621 | \$ 360,208 | \$ 1,264,618 | \$ 171,604 | \$ 228,851 | \$ 7,540,902 |

**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, 2007**

| | | |
|---|--------------------|-----------------------|
| Net change in fund balances - total governmental funds (Exhibit 5) | \$ | 325,862 |
| <p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> <p>Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p> | | |
| Expenditures for general capital assets and infrastructure | \$ 2,177,125 | |
| Current year depreciation | <u>(1,565,553)</u> | 611,572 |
| <p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.</p> | | |
| Change in deferred revenue | | (319,799) |
| <p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p> | | |
| Change in compensated absences | \$ (37,272) | |
| Change in inventories | <u>16,548</u> | <u>(20,724)</u> |
| Change in net assets of governmental activities (Exhibit 2) | \$ | <u>596,911</u> |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2007**

| | Mar-Kit Landfill Investment Trust | Agency (Statement 3) |
|---|--|---------------------------------|
| <u>Assets</u> | | |
| Cash and pooled investments | \$ - | \$ 1,184,566 |
| Investments | 1,310,601 | - |
| Accrued interest receivable | 3,595 | - |
| | \$ 1,314,196 | \$ 1,184,566 |
| <u>Liabilities</u> | | |
| Accounts payable | \$ - | \$ 108,214 |
| Accrued interest payable | 3,595 | - |
| Due to other governments | - | 1,076,352 |
| | \$ 3,595 | \$ 1,184,566 |
| <u>Net Assets</u> | | |
| Net assets, held in trust for pool participants | \$ 1,310,601 | |

**KITSON COUNTY
HALLOCK, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
MAR-KIT LANDFILL INVESTMENT TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | | |
|--------------------------------|--------------------------|-----------------------------------|
| | <u>Additions</u> | |
| Investment earnings | | \$ 71,829 |
| | <u>Deductions</u> | |
| Distributions to participants | | <u>251,029</u> |
| Change in net assets | | \$ (179,200) |
| Net Assets--January 1 | | <u>1,489,801</u> |
| Net Assets--December 31 | | <u><u>\$ 1,310,601</u></u> |

**KITTSON COUNTY
HALLOCK, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007

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.

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.

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 Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2007, based on market prices. Pursuant to Minnesota Statute, § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2007 were \$457,442. Total investment earnings for 2007 were \$459,226.

2. Receivables and Payables

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

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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

3. Inventories

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

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

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

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

4. Restricted Assets

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

5. Capital Assets

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

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

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

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

6. Compensated Absences

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

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

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

7. Deferred Revenue

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

8. Net Assets and Fund Balance

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

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

9. Use of Estimates

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

II. Stewardship, Compliance, and Accountability

A. Individual Fund Deficits of Equity Accounts

Ditch Special Revenue Fund

Five 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, 2007:

| | |
|-----------------|-------------------|
| Account balance | \$ 312,164 |
| Account deficit | <u>(140,560)</u> |
| Fund Balance | <u>\$ 171,604</u> |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

II. Stewardship, Compliance, and Accountability (Continued)

B. 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 Investments

Reconciliations of the County's total deposits and investments to the basic financial statements, as of December 31, 2007, are reported as follows:

| | Primary Government | Discretely Presented Component Unit |
|---|-------------------------|---|
| Government-wide statement of net assets | | |
| Cash and pooled investments | \$ 7,399,461 | \$ 37,752 |
| Investments | 40,000 | - |
| Restricted cash and pooled investments | - | 303,091 |
| Restricted investments | - | 70,000 |
| Surcharge cash reserved for debt repayment | - | 1,363 |
| Investments reserved for asset replacement | - | 489,266 |
| Statement of fiduciary net assets | | |
| Cash and pooled investments | 1,184,566 | - |
| Investments | <u>1,310,601</u> | <u>-</u> |
| Total cash and investments | <u>\$ 9,934,628</u> | <u>\$ 901,472</u> |
| Deposits | \$ 3,972,076 | \$ 901,472 |
| Cash on hand | 1,800 | - |
| Investments | <u>5,960,752</u> | <u>-</u> |
| Total deposits, cash on hand, and investments | <u>\$ 9,934,628</u> | <u>\$ 901,472</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.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Cash and Investments

Deposits (Continued)

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, 2007, the County's deposits were not exposed to custodial credit risk.

Investments

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

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

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Cash and Investments (Continued)

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, 2007, the County had the following investments and maturities:

| | <u>Fair Value</u> | <u>Less Than 1 Year</u> | <u>1-5 Years</u> | <u>5+ Years</u> |
|--|---------------------|-----------------------------|-------------------|---------------------|
| Federal Home Loan Bank | \$ 686,164 | \$ 99,875 | \$ 225,000 | \$ 361,289 |
| Federal National Mortgage Association | 300,000 | - | - | 300,000 |
| Negotiable Certificates of Deposit | 3,468,495 | 2,410,000 | 579,792 | 478,703 |
| Money Market | 1,473,784 | 1,473,784 | - | - |
| Tennessee Valley Authority Power Bonds | <u>32,309</u> | <u>-</u> | <u>-</u> | <u>32,309</u> |
| Total Investments | <u>\$ 5,960,752</u> | <u>\$ 3,983,659</u> | <u>\$ 804,792</u> | <u>\$ 1,172,301</u> |
| | 100% | 67% | 13% | 20% |

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, 2007, is as follows:

| | <u>Moody's Rating</u> | <u>Fair Value</u> |
|--|---------------------------|---------------------|
| Federal Home Loan Bank | AAA | \$ 686,164 |
| Federal National Mortgage Association | AAA | 300,000 |
| Money Market | N/A | 1,473,784 |
| Negotiable Certificates of Deposit | N/A | 3,468,495 |
| Tennessee Valley Authority Power Bonds | N/R | <u>32,309</u> |
| | | <u>\$ 5,960,752</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, 2007, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer, excluding U.S. guaranteed investments, investment pools, and mutual funds. The County's negotiable certificates of deposit are with 36 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 Home Loan Bank in the amount of \$686,164, or 11.5 percent of total investments.

2. Receivables

Receivables as of December 31, 2007, for the County's governmental activities, including any applicable allowances for uncollectible accounts, are as follows:

| | <u>Total Receivables</u> |
|----------------------------|--------------------------|
| Taxes | \$ 41,254 |
| Special assessments | 1,379 |
| Accounts | 12,167 |
| Accrued interest | 53,471 |
| Due from other governments | 1,205,339 |
| Total | \$ 1,313,610 |

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

Receivables as of December 31, 2007, for the discretely presented component unit, including any applicable allowances for uncollectible accounts, are as follows:

| | <u>Total Receivables</u> | <u>Amounts Not Scheduled for Collection During the Subsequent Year</u> |
|---|--------------------------|--|
| Accounts Restricted | \$ 71,013 | \$ - |
| Special Assessments | 1,494,923 | 1,167,748 |
| Due from other governments | 813,000 | - |
| Surcharge – reserved for debt repayment | 6,380 | - |
| Total | \$ 2,385,316 | \$ 1,167,748 |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the primary government for the year ended December 31, 2007, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|---------------------|---------------------|----------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 190,821 | \$ - | \$ - | \$ 190,821 |
| Construction in progress | <u>267,789</u> | <u>1,860,934</u> | <u>1,017,088</u> | <u>1,111,635</u> |
| Total capital assets not depreciated | <u>\$ 458,610</u> | <u>\$ 1,860,934</u> | <u>\$ 1,017,088</u> | <u>\$ 1,302,456</u> |
| Capital assets being depreciated | | | | |
| Infrastructure | \$ 54,680,008 | \$ 1,017,088 | \$ - | \$ 55,697,096 |
| Buildings and improvements | 2,024,473 | - | 17,805 | 2,006,668 |
| Machinery and equipment | <u>3,680,517</u> | <u>316,191</u> | <u>190,739</u> | <u>3,805,969</u> |
| Total capital assets being depreciated | <u>\$ 60,384,998</u> | <u>\$ 1,333,279</u> | <u>\$ 208,544</u> | <u>\$ 61,509,733</u> |
| Less: accumulated depreciation for | | | | |
| Infrastructure | \$ 11,000,794 | \$ 1,053,232 | \$ - | \$ 12,054,026 |
| Buildings and improvements | 1,638,991 | 34,116 | 17,805 | 1,655,302 |
| Machinery and equipment | <u>2,375,923</u> | <u>478,205</u> | <u>190,739</u> | <u>2,663,389</u> |
| Total accumulated depreciation | <u>\$ 15,015,708</u> | <u>\$ 1,565,553</u> | <u>\$ 208,544</u> | <u>\$ 16,372,717</u> |
| Total capital assets depreciated, net | <u>\$ 45,369,290</u> | <u>\$ (232,274)</u> | <u>\$ -</u> | <u>\$ 45,137,016</u> |
| Primary Government Capital Assets, Net | <u>\$ 45,827,900</u> | <u>\$ 1,628,660</u> | <u>\$ 1,017,088</u> | <u>\$ 46,439,472</u> |

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

| | |
|---|---------------------|
| General government | \$ 206,689 |
| Public safety | 89,196 |
| Highways and streets, including depreciation of infrastructure assets | 1,262,317 |
| Human services | <u>7,351</u> |
| Total Depreciation Expense | <u>\$ 1,565,553</u> |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Capital asset activity for the discretely presented component unit for the year ended December 31, 2007, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------------|------------------|----------------------|
| Capital assets, not being depreciated | | | | |
| Land | \$ 108,045 | \$ - | \$ - | \$ 108,045 |
| Construction in progress | - | 28,949 | - | 28,949 |
| Total capital assets not depreciated | <u>\$ 108,045</u> | <u>\$ 28,949</u> | <u>\$ -</u> | <u>\$ 136,994</u> |
| Capital assets being depreciated | | | | |
| Distribution system | \$ 10,002,723 | \$ - | \$ - | \$ 10,002,723 |
| Buildings and pumps | 3,718,410 | - | 1,152 | 3,717,258 |
| Machinery and equipment | 165,633 | - | 28,501 | 137,132 |
| Tower reconditioning | 285,748 | - | - | 285,748 |
| Total capital assets being depreciated | <u>\$ 14,172,514</u> | <u>\$ -</u> | <u>\$ 29,653</u> | <u>\$ 14,142,861</u> |
| Less: accumulated depreciation for | | | | |
| Distribution system | \$ 2,068,824 | \$ 115,963 | \$ - | \$ 2,184,787 |
| Buildings and pumps | 1,213,563 | 82,181 | 1,152 | 1,294,592 |
| Machinery and equipment | 110,982 | 10,476 | 28,501 | 92,957 |
| Tower reconditioning | 35,226 | 14,287 | 1 | 49,512 |
| Total accumulated depreciation | <u>\$ 3,428,595</u> | <u>\$ 222,907</u> | <u>\$ 29,654</u> | <u>\$ 3,621,848</u> |
| Total capital assets, depreciated, net | <u>\$ 10,743,919</u> | <u>\$ (222,907)</u> | <u>\$ (1)</u> | <u>\$ 10,521,013</u> |
| Component Unit | | | | |
| Capital Assets, Net | <u>\$ 10,851,964</u> | <u>\$ (193,958)</u> | <u>\$ (1)</u> | <u>\$ 10,658,007</u> |

\$222,907 of depreciation expense was charged to the functions of the Rural Water System.

Construction Commitments

The County has one active construction commitment for highways and streets as of December 31, 2007, with \$68,627 spent-to-date and \$7,237 in remaining commitment.

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

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2007, is as follows:

Due To/From Other Funds

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> | |
|---|---|-----------------|----------------------|
| General Fund | Road and Bridge Special Revenue Fund | \$ 63 | Charges for services |
| | Other Governmental | <u>5,154</u> | Forfeited tax sale |
| Total Due to General Fund | | <u>\$ 5,217</u> | |
| Road and Bridge Special Revenue Fund | Ditch Special Revenue Fund | 691 | Charges for services |
| | Other Governmental | <u>805</u> | Charges for services |
| Total Due to Road and Bridge Special Revenue Fund | | <u>\$ 1,496</u> | |
| Total Due To/From Other Funds | | <u>\$ 6,713</u> | |

Advances From/To Other Funds

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> | |
|------------------------|----------------------------|-------------------|-----------|
| General Fund | Ditch Special Revenue Fund | <u>\$ 159,234</u> | Cash flow |

This advance will be paid back as funds become available.

Interfund Transfers

Interfund transfers for the year ended December 31, 2007, consisted of the following operating transfer:

| | | |
|--|-----------------|-----------------------------|
| Transfer to General Fund from Other Governmental | <u>\$ 5,154</u> | Forfeited tax sale proceeds |
|--|-----------------|-----------------------------|

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. As of December 31, 2007, governmental funds reported the following various components of deferred unavailable revenue:

| | <u>Deferred Unavailable</u> |
|------------------------|---------------------------------|
| Taxes | \$ 29,169 |
| Special Assessments | 771 |
| Grants | 212,201 |
| Contracts | <u>818,387</u> |
| Total Deferred Revenue | <u>\$ 1,060,528</u> |

**KITTSOON 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, 2007 were \$1,982. The future minimum lease payments are as follows:

| Year Ending December 31 | |
|------------------------------|----------|
| 2008 | \$ 2,101 |
| 2009 | 2,227 |
| Total minimum lease payments | \$ 4,328 |

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 \$432,291 at December 31, 2007, is available to employees in the event of illness-related absences and is not paid to them at termination.

Changes in Long-Term Liabilities

Long-term liability for activity for the governmental activities for the year ended December 31, 2007, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|----------------------|----------------------|------------|------------|-------------------|------------------------|
| Compensated absences | \$ 352,958 | \$ 209,140 | \$ 171,868 | \$ 390,230 | \$ 143,642 |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities (Continued)

Long-Term Debt – Discretely Presented Component Unit

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

| | |
|--|----------------------------|
| <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 \$7,429.</p> | <p>\$ 442,571</p> |
| <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 \$3,997.</p> | <p>1,221,003</p> |
| <p>\$813,000 General Obligation Revenue Bonds of 2004 – dated March 15, 2004 due in annual installments of \$16,000 to \$24,000 through January 2017, net interest rate of 4.5 percent. This debt is for construction of the Rural Water System.</p> | <p><u>166,468</u></p> |
| <p>Total Payable from North Kittson Rural Water System Component Unit</p> | <p><u>\$ 1,830,042</u></p> |

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 |
| 2008 | \$ 105,000 | \$ 74,470 | \$ 16,000 | \$ 9,464 | \$ 121,000 | \$ 83,934 |
| 2009 | 105,000 | 70,762 | 16,000 | 8,744 | 121,000 | 79,506 |
| 2010 | 110,000 | 66,852 | 17,000 | 8,024 | 127,000 | 74,876 |
| 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 |
| 2013-2017 | 620,000 | 204,716 | 80,468 | 16,132 | 700,468 | 220,848 |
| 2018-2022 | <u>500,000</u> | <u>75,971</u> | - | - | <u>500,000</u> | <u>75,971</u> |
| | \$1,675,000 | \$ 613,051 | \$ 166,468 | \$ 56,072 | \$1,841,468 | \$ 669,123 |
| Less | | | | | | |
| bond discount | <u>(11,426)</u> | - | - | - | <u>(11,426)</u> | - |
| Total | <u>\$1,663,574</u> | <u>\$ 613,051</u> | <u>\$ 166,468</u> | <u>\$ 56,072</u> | <u>\$1,830,042</u> | <u>\$ 669,123</u> |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the discretely presented component unit for the year ended December 31, 2007, was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|----------------------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| G.O. Refunding Bonds | \$1,775,000 | \$ - | \$ 100,000 | \$1,675,000 | \$ 105,000 |
| Less: Bond discount | (12,517) | - | (1,091) | (11,426) | - |
| G.O. Revenue Bonds of 2004 | 225,312 | - | 58,844 | 166,468 | 16,000 |
| Compensated absences | <u>26,125</u> | <u>22,469</u> | <u>12,036</u> | <u>36,558</u> | <u>11,520</u> |
| Long-Term Liabilities | <u>\$2,013,920</u> | <u>\$ 22,469</u> | <u>\$ 169,789</u> | <u>1,866,600</u> | <u>\$ 132,520</u> |

IV. Pension Plans

Defined Benefit Plans

Plan Description

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

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

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

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

IV. Pension Plans

Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered salary in 2007. That rate increased to 8.60 percent in 2008. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

IV. Pension Plans

Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

| | <u>2007</u> | <u>2008</u> |
|---------------------------------------|-------------|-------------|
| Public Employees Retirement Fund | | |
| Basic Plan Members | 11.78% | 11.78% |
| Coordinated Plan Members | 6.25 | 6.50 |
| Public Employees Police and Fire Fund | 11.70 | 12.90 |
| Public Employees Correctional Fund | 8.75 | 8.75 |

The County's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

| | <u>Public Employees Retirement Fund</u> | <u>Public Employees Police and Fire Fund</u> | <u>Public Employees Correctional Fund</u> |
|------|---|--|---|
| 2007 | \$ 119,467 | \$ 33,190 | \$ 15,476 |
| 2006 | 115,141 | 29,577 | 14,927 |
| 2005 | 101,316 | 24,234 | 14,595 |

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

Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered 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.

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan.

The County's contributions for the years ending December 31, 2007 and 2006 were \$6,409 and \$6,126, respectively, equal to the contractually required contribution as set by state statute.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

IV. Pension Plans (Continued)

Other Post-Employment Benefits – Retirees

In accordance with Minnesota Statutes, the County provides post-retirement health care benefits for retirees and their dependents. As of year-end, the County has four eligible participants. The County pays these benefits and is fully reimbursed by each participant. During 2007, the County expended \$16,244 for health care benefits and \$67 for life insurance benefits.

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, 2007, the outstanding balance of this debt is \$1,221,003, net of bond discount, for which the Water System has a commitment of \$822,502 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.

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 \$400,000 per claim in 2007.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

C. Risk Management (Continued)

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, Mahnomon, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau counties. The purpose of the HSEM Region 3 Emergency Managers Joint Powers Board is to engage in planning, training, and/or the purchase of equipment in order to better respond to emergencies and natural and other disasters within HSEM Region 3; specifically within the jurisdictional boundaries of the member counties.

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

The HSEM Region 3 Emergency Managers Joint Powers Board has no long-term debt. Financing will be provided by a Homeland Security Grant Program and other grant programs and awards.

Job Training Partnership Act Joint Powers Agreement

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

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

**KITTSON COUNTY
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Job Training Partnership Act Joint Powers Agreement (Continued)

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 \$40,493 to KaMaR for the year ended December 31, 2007. Kittson County, in an agent capacity, reports the cash transactions of KaMaR as an agency fund on its financial statements. Complete financial information can be obtained from the Kittson County Auditor/Treasurer's Office or the KaMaR office, Karlstad, Minnesota 56732.

Karlstad Mobile Relay Station

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

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

The Karlstad Mobile Relay Station has no long-term debt. Financing is provided by contributions from each member county representing an equal share of annual expense. Kittson County did not contribute to the Karlstad Mobile Relay Station for the year ended December 31, 2007. 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)

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 \$186,667. Financing is provided by charges for services and appropriations from member counties. Kittson County, in an agent capacity, reports the cash transactions of the Landfill as an agency fund on its financial statements. Complete financial information can be obtained from the Kittson County Auditor/Treasurer's Office, P.O. Box 848, Hallock, Minnesota 56728.

Northwest Minnesota Regional Radio Board

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

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

The Northwest Minnesota Regional Radio Board has no long-term debt. Financing is provided by annual contributions from members, reflective of the extent of participation and use of services. Kittson County did not contribute to the Northwest Regional Radio Board for the year ended December 31, 2007. Complete financial information can be obtained from Greater Northwest Emergency Medical Services, 2301 Johanneson Avenue NW, Suite 103, Bemidji, Minnesota 56601.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Northwest Service Cooperative

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

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

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

Northwestern Counties Data Processing Security Association

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

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

The Northwestern Counties Data Processing Security Association has no long-term debt. Financing is provided by state grants and appropriations from member counties when needed. Kittson County did not contribute to the Association for the year ended December 31, 2007. 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.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Northwestern Minnesota Household Hazardous Waste Management Group

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

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

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Kittson County contributed \$3,986 to the Waste Management Group for the year ended December 31, 2007. 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.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northwestern Minnesota Juvenile Center (Continued)

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

Quin County Community Health Service

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

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

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

Williams Mobile Relay Station

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

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

**KITTSON COUNTY
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Williams Mobile Relay Station (Continued)

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 2007. Complete financial information can be obtained from the Lake of the Woods County Auditor's Office, P.O. Box 808, Baudette, Minnesota 56623.

E. Related Organizations

Joe River Watershed District

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

Kittson-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.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

E. Related Organizations (Continued)

Two Rivers Watershed District

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

F. Jointly-Governed Organizations

Minnesota Counties Computer Consortium

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

Minnesota Rural Counties Caucus

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

Northwest Minnesota Multi-County Housing and Redevelopment Authority

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

**KITTSON COUNTY
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations (Continued)

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 \$55,450 to the Library for the year ended December 31, 2007.

Northwest Workforce Service Area

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

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

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

Roseau River Watershed District

The Roseau River Watershed District was formed pursuant to Minnesota Statute, § 103D.201, effective June 17, 1963, and includes land within Beltrami, Kittson, Lake of the Woods, and Marshall Counties. Control of the District is vested in the Roseau River Watershed District Board of Managers which is composed of five members having staggered terms of three years each, with four appointed by the Roseau County Board and one appointed by the Kittson County Board.

REQUIRED SUPPLEMENTARY INFORMATION

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---------------------------------|-------------------------|---------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 1,552,273 | \$ 1,552,273 | \$ 1,539,158 | \$ (13,115) |
| Licenses and permits | 1,875 | 1,875 | 3,405 | 1,530 |
| Intergovernmental | 858,114 | 1,000,180 | 948,339 | (51,841) |
| Charges for services | 147,605 | 174,105 | 184,842 | 10,737 |
| Fines and forfeitures | 6,500 | 6,500 | 6,229 | (271) |
| Investment earnings | 284,400 | 454,400 | 457,442 | 3,042 |
| Miscellaneous | 93,488 | 134,513 | 174,898 | 40,385 |
| Total Revenues | \$ 2,944,255 | \$ 3,323,846 | \$ 3,314,313 | \$ (9,533) |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Commissioners | \$ 157,748 | \$ 178,748 | \$ 178,805 | \$ (57) |
| District court | 5,000 | 10,600 | 12,489 | (1,889) |
| Law library | 8,000 | 8,000 | 10,836 | (2,836) |
| County auditor/treasurer | 362,693 | 362,693 | 358,916 | 3,777 |
| County assessor | 185,012 | 200,512 | 177,392 | 23,120 |
| Elections | 2,650 | 2,650 | 35 | 2,615 |
| Professional services | 30,520 | 30,520 | 21,974 | 8,546 |
| Data processing | 121,676 | 121,676 | 124,275 | (2,599) |
| Attorney | 62,959 | 69,459 | 68,999 | 460 |
| Recorder | 130,165 | 130,165 | 126,872 | 3,293 |
| Planning and zoning | 12,106 | 12,106 | 12,107 | (1) |
| Buildings and grounds | 191,700 | 184,200 | 199,675 | (15,475) |
| Veterans service officer | 20,239 | 23,459 | 22,122 | 1,337 |
| Insurance | 50,000 | 50,000 | 49,742 | 258 |
| Other general government | 47,658 | 58,674 | 38,369 | 20,305 |
| Total general government | \$ 1,388,126 | \$ 1,443,462 | \$ 1,402,608 | \$ 40,854 |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

*Schedule 1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|-------------------------------------|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Public safety | | | | |
| Sheriff | \$ 540,121 | \$ 548,821 | \$ 561,681 | \$ (12,860) |
| Boat and water safety | 500 | 500 | - | 500 |
| Community corrections | 191,938 | 172,938 | 156,860 | 16,078 |
| Coroner | 6,500 | 6,500 | 4,500 | 2,000 |
| Enhanced 911 | 14,700 | 14,700 | 8,922 | 5,778 |
| Emergency management | 39,774 | 46,274 | 42,848 | 3,426 |
| Fire protection | 500 | 500 | 500 | - |
| Probation and parole | 33,300 | 33,300 | 28,640 | 4,660 |
| Safety committee | 250 | 250 | 44 | 206 |
| Sentence to serve | 9,850 | 9,850 | 11,000 | (1,150) |
| Transmission tower | 3,690 | 3,690 | 1,488 | 2,202 |
| Victim assistance | - | 39,820 | 44,007 | (4,187) |
| Total public safety | \$ 841,123 | \$ 877,143 | \$ 860,490 | \$ 16,653 |
| Sanitation | | | | |
| KaMaR Recycling | \$ 24,000 | \$ 40,400 | \$ 57,913 | \$ (17,513) |
| Recycling | 38,405 | 38,405 | 33,701 | 4,704 |
| Solid waste | 19,703 | 19,703 | 7,326 | 12,377 |
| Total sanitation | \$ 82,108 | \$ 98,508 | \$ 98,940 | \$ (432) |
| 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 | | | | |
| Celebrations | \$ 250 | \$ 250 | \$ 500 | \$ (250) |
| Historical society | 43,300 | 43,300 | 43,300 | - |
| Regional library | 55,450 | 55,450 | 55,450 | - |
| Snowmobile and ski trails | 80,000 | 80,000 | 80,427 | (427) |
| Total culture and recreation | \$ 179,000 | \$ 179,000 | \$ 179,677 | \$ (677) |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

*Schedule 1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Conservation of natural resources | | | | |
| Agricultural inspection | \$ 8,775 | \$ 8,775 | \$ 8,775 | \$ - |
| Agricultural society | 22,500 | 22,500 | 22,500 | - |
| County extension | 98,127 | 98,127 | 96,731 | 1,396 |
| Environmental services | - | 250 | 457 | (207) |
| Predator and weed control | 3,000 | 3,000 | 1,394 | 1,606 |
| Soil and water conservation | 88,846 | 88,846 | 99,629 | (10,783) |
| Total conservation of natural resources | \$ 221,248 | \$ 221,498 | \$ 229,486 | \$ (7,988) |
| Economic development | | | | |
| Kittson Office of Economic Development | \$ 40,000 | \$ 40,000 | \$ 12,000 | \$ 28,000 |
| Minnesota Red River Valley Development Authority | 1,200 | 1,200 | 1,200 | - |
| Other economic development | 400 | 400 | 400 | - |
| Total economic development | \$ 41,600 | \$ 41,600 | \$ 13,600 | \$ 28,000 |
| Total Current Expenditures | \$ 2,789,773 | \$ 2,897,779 | \$ 2,821,369 | \$ 76,410 |
| Capital outlay | | | | |
| General government | \$ 109,950 | \$ 127,950 | \$ 59,005 | \$ 68,945 |
| Public safety | 49,000 | 64,000 | 67,935 | (3,935) |
| Total capital outlay | \$ 158,950 | \$ 191,950 | \$ 126,940 | \$ 65,010 |
| Total Expenditures | \$ 2,948,723 | \$ 3,089,729 | \$ 2,948,309 | \$ 141,420 |
| Excess of Revenues Over (Under) Expenditures | \$ (4,468) | \$ 234,117 | \$ 366,004 | \$ 131,887 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 2,552 | 2,552 | 5,154 | 2,602 |
| Net Change in Fund Balance | \$ (1,916) | \$ 236,669 | \$ 371,158 | \$ 134,489 |
| Fund Balance - January 1 | 5,144,463 | 5,144,463 | 5,144,463 | - |
| Fund Balance - December 31 | \$ 5,142,547 | \$ 5,381,132 | \$ 5,515,621 | \$ 134,489 |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 333,127 | \$ 333,127 | \$ 332,492 | \$ (635) |
| Intergovernmental | 3,923,662 | 3,780,462 | 3,841,728 | 61,266 |
| Charges for services | 911,030 | 774,530 | 775,053 | 523 |
| Miscellaneous | 313,000 | 61,000 | 67,308 | 6,308 |
| Total Revenues | \$ 5,480,819 | \$ 4,949,119 | \$ 5,016,581 | \$ 67,462 |
| Expenditures | | | | |
| Current | | | | |
| Highways and streets | | | | |
| Administration | \$ 405,102 | \$ 422,102 | \$ 393,522 | \$ 28,580 |
| Engineering | 982,989 | 483,489 | 467,835 | 15,654 |
| Maintenance | 1,112,518 | 1,228,118 | 1,174,651 | 53,467 |
| Construction | 2,402,402 | 2,402,402 | 2,473,174 | (70,772) |
| Equipment maintenance and shop | 393,796 | 423,096 | 433,248 | (10,152) |
| Total current | \$ 5,296,807 | \$ 4,959,207 | \$ 4,942,430 | \$ 16,777 |
| Capital outlay | | | | |
| Highways and streets | 184,011 | 184,011 | 185,665 | (1,654) |
| Total Expenditures | \$ 5,480,818 | \$ 5,143,218 | \$ 5,128,095 | \$ 15,123 |
| Excess of Revenues Over (Under) Expenditures | \$ 1 | \$ (194,099) | \$ (111,514) | \$ 82,585 |
| Fund Balance - January 1 | 455,174 | 455,174 | 455,174 | - |
| Increase (decrease) in reserved for inventories | - | - | 16,548 | 16,548 |
| Fund Balance - December 31 | \$ 455,175 | \$ 261,075 | \$ 360,208 | \$ 99,133 |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|---------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 374,707 | \$ 374,707 | \$ 371,658 | \$ (3,049) |
| Intergovernmental | 681,066 | 834,640 | 717,078 | (117,562) |
| Charges for services | 35,339 | 50,139 | 89,944 | 39,805 |
| Investment earnings | 700 | 700 | 1,784 | 1,084 |
| Miscellaneous | 20,446 | 40,446 | 229,865 | 189,419 |
| Total Revenues | \$ 1,112,258 | \$ 1,300,632 | \$ 1,410,329 | \$ 109,697 |
| Expenditures | | | | |
| Current | | | | |
| Human services | | | | |
| Income maintenance | \$ 373,689 | \$ 467,089 | \$ 442,065 | \$ 25,024 |
| Social services | 828,930 | 870,377 | 852,584 | 17,793 |
| Transportation | 11,000 | 11,000 | 10,065 | 935 |
| Total Expenditures | \$ 1,213,619 | \$ 1,348,466 | \$ 1,304,714 | \$ 43,752 |
| Excess of Revenues Over (Under) Expenditures | \$ (101,361) | \$ (47,834) | \$ 105,615 | \$ 153,449 |
| Fund Balance - January 1 | 1,159,003 | 1,159,003 | 1,159,003 | - |
| Fund Balance - December 31 | \$ 1,057,642 | \$ 1,111,169 | \$ 1,264,618 | \$ 153,449 |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|-------------------|--------------------|--------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Special assessments | \$ 129,600 | \$ 129,600 | \$ 158,648 | \$ 29,048 |
| Intergovernmental | 195,150 | 195,150 | 37,181 | (157,969) |
| Charges for services | 6,450 | 6,450 | 44,300 | 37,850 |
| Total Revenues | \$ 331,200 | \$ 331,200 | \$ 240,129 | \$ (91,071) |
| Expenditures | | | | |
| Current | | | | |
| Conservation of natural resources | | | | |
| Administration | \$ - | \$ - | \$ 1,233 | \$ (1,233) |
| Maintenance and repairs | 216,000 | 353,650 | 289,023 | 64,627 |
| Roseau River Watershed | - | - | 941 | (941) |
| Two Rivers Watershed | - | - | 22,822 | (22,822) |
| Total conservation of natural resources | \$ 216,000 | \$ 353,650 | \$ 314,019 | \$ 39,631 |
| Debt service | | | | |
| Interest | - | 4,030 | 3,430 | 600 |
| Total Expenditures | \$ 216,000 | \$ 357,680 | \$ 317,449 | \$ 40,231 |
| Excess of Revenues Over (Under) Expenditures | \$ 115,200 | \$ (26,480) | \$ (77,320) | \$ (50,840) |
| Fund Balance - January 1 | 248,924 | 248,924 | 248,924 | - |
| Fund Balance - December 31 | \$ 364,124 | \$ 222,444 | \$ 171,604 | \$ (50,840) |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007

I. Budgetary Information

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.

II. Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2007:

| | <u>Expenditures</u> | <u>Budget</u> | <u>Excess</u> |
|-----------------------------------|---------------------|---------------|---------------|
| General Fund | | | |
| General government | | | |
| Commissioners | \$ 178,805 | \$ 178,748 | \$ (57) |
| District court | 12,489 | 10,600 | (1,889) |
| Law library | 10,836 | 8,000 | (2,836) |
| Data processing | 124,275 | 121,676 | (2,599) |
| Planning and zoning | 12,107 | 12,106 | (1) |
| Buildings and grounds | 199,675 | 184,200 | (15,475) |
| Public Safety | | | |
| Sheriff | 561,681 | 548,821 | (12,860) |
| Sentence to serve | 11,000 | 9,850 | (1,150) |
| Victim assistance | 44,007 | 39,820 | (4,187) |
| Sanitation | | | |
| KaMaR Recycling | 57,913 | 40,400 | (17,513) |
| Culture and recreation | | | |
| Celebrations | 500 | 250 | (250) |
| Snowmobile and ski trails | 80,427 | 80,000 | (427) |
| Conservation of natural resources | | | |
| Environmental services | 457 | 250 | (207) |
| Soil and water conservation | 99,629 | 88,846 | (10,783) |
| Capital outlay | | | |
| Public safety | 67,935 | 64,000 | (3,935) |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

II. Excess of Expenditures Over Budget (Continued)

| | <u>Expenditures</u> | <u>Budget</u> | <u>Excess</u> |
|--------------------------------------|---------------------|---------------|---------------|
| Road and Bridge Special Revenue Fund | | | |
| Highways and streets | | | |
| Construction | 2,473,174 | 2,402,402 | (70,772) |
| Equipment maintenance and shop | 433,248 | 423,096 | (10,152) |
| Capital outlay | | | |
| Highways and streets | 185,665 | 184,011 | (1,654) |
| Ditch Special Revenue Fund | | | |
| Conservation of natural resources | | | |
| Administration | 1,233 | - | (1,233) |
| Roseau River Watershed | 941 | - | (941) |
| Two Rivers Watershed | 22,822 | - | (22,822) |

SUPPLEMENTARY INFORMATION

**KITTSON COUNTY
KITTSON, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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, 2007**

| | | Forfeited Tax Sale |
|--|-----------|-------------------------------|
| <u>Assets</u> | | |
| Cash and pooled investments | \$ | 18,881 |
| Taxes receivable - prior | | - |
| Due from other governments | | - |
| | | - |
| Total Assets | \$ | 18,881 |
| <u>Liabilities and Fund Balances</u> | | |
| Liabilities | | |
| Accounts payable | \$ | - |
| Due to other funds | | 5,154 |
| Due to other governments | | 13,727 |
| Deferred revenue - unavailable | | - |
| | | - |
| Total Liabilities | \$ | 18,881 |
| Fund Balances | | |
| Reserved for public assistance | \$ | - |
| Unreserved | | |
| Designated for debt service | | - |
| Undesignated | | - |
| | | - |
| Total Fund Balances | \$ | - |
| Total Liabilities and Fund Balances | \$ | 18,881 |

Statement 1

| Special Revenue Funds | | | Total Nonmajor Special Revenue Funds (Exhibit 3) | |
|--------------------------|-------------------------|--------------------------|---|--|
| Government Commitment | Health Insurance | Unorganized Townships | | |
| \$ 8,894 | \$ 39,934 | \$ 184,234 | \$ 251,943 | |
| - | - | 13 | 13 | |
| - | - | 8,342 | 8,342 | |
| <u>\$ 8,894</u> | <u>\$ 39,934</u> | <u>\$ 192,589</u> | <u>\$ 260,298</u> | |
| | | | | |
| \$ - | \$ 3,419 | \$ - | \$ 3,419 | |
| - | - | 805 | 5,959 | |
| - | - | - | 13,727 | |
| - | - | 8,342 | 8,342 | |
| <u>\$ -</u> | <u>\$ 3,419</u> | <u>\$ 9,147</u> | <u>\$ 31,447</u> | |
| | | | | |
| \$ - | \$ - | \$ 15,570 | \$ 15,570 | |
| 8,894 | - | - | 8,894 | |
| - | 36,515 | 167,872 | 204,387 | |
| <u>\$ 8,894</u> | <u>\$ 36,515</u> | <u>\$ 183,442</u> | <u>\$ 228,851</u> | |
| | | | | |
| <u>\$ 8,894</u> | <u>\$ 39,934</u> | <u>\$ 192,589</u> | <u>\$ 260,298</u> | |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Special Revenue Funds | | | | Total Nonmajor Special Revenue Funds (Exhibit 5) |
|---|-----------------------|--------------------------|---------------------|--------------------------|---|
| | Forfeited Tax Sale | Government Commitment | Health Insurance | Unorganized Townships | |
| Revenues | | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ 22,255 | \$ 22,255 |
| Intergovernmental | - | - | - | 37,935 | 37,935 |
| Land and timber sales | 16,623 | - | - | - | 16,623 |
| Miscellaneous | 2,939 | - | 471,594 | 15 | 474,548 |
| Total Revenues | \$ 19,562 | \$ - | \$ 471,594 | \$ 60,205 | \$ 551,361 |
| Expenditures | | | | | |
| Current | | | | | |
| General government | \$ - | \$ - | \$ 435,814 | \$ - | \$ 435,814 |
| Public safety | - | - | - | 4,331 | 4,331 |
| Highways and streets | - | - | - | 53,731 | 53,731 |
| Conservation of natural resources | 14,408 | - | - | - | 14,408 |
| Total Expenditures | \$ 14,408 | \$ - | \$ 435,814 | \$ 58,062 | \$ 508,284 |
| Excess of Revenues Over (Under) Expenditures | \$ 5,154 | \$ - | \$ 35,780 | \$ 2,143 | \$ 43,077 |
| Other Financing Sources (Uses) | | | | | |
| Transfers out | (5,154) | - | - | - | (5,154) |
| Net Change in Fund Balance | \$ - | \$ - | \$ 35,780 | \$ 2,143 | \$ 37,923 |
| Fund Balance - January 1 | - | 8,894 | 735 | 181,299 | 190,928 |
| Fund Balance - December 31 | \$ - | \$ 8,894 | \$ 36,515 | \$ 183,442 | \$ 228,851 |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|------------------|-----------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Land and timber sales | \$ - | \$ 3,000 | \$ 16,623 | \$ 13,623 |
| Miscellaneous | - | - | 2,939 | 2,939 |
| Total Revenues | \$ - | \$ 3,000 | \$ 19,562 | \$ 16,562 |
| Expenditures | | | | |
| Current | | | | |
| Conservation of natural resources | | | | |
| Forfeited land | \$ - | \$ 1,000 | \$ 14,408 | \$ (13,408) |
| Excess of Revenues Over (Under) Expenditures | \$ - | \$ 2,000 | \$ 5,154 | \$ 3,154 |
| Other Financing Sources (Uses) | | | | |
| Transfers out | - | (2,000) | (5,154) | (3,154) |
| Net Change in Fund Balance | \$ - | \$ - | \$ - | \$ - |
| Fund Balance - January 1 | - | - | - | - |
| Fund Balance - December 31 | \$ - | \$ - | \$ - | \$ - |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
HEALTH INSURANCE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|---------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Miscellaneous | \$ - | \$ 470,000 | \$ 471,594 | \$ 1,594 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Insurance | - | 470,000 | 435,814 | 34,186 |
| Excess of Revenues Over (Under) Expenditures | \$ - | \$ - | \$ 35,780 | \$ 35,780 |
| Fund Balance - January 1 | <u>735</u> | <u>735</u> | <u>735</u> | <u>-</u> |
| Fund Balance - December 31 | <u>\$ 735</u> | <u>\$ 735</u> | <u>\$ 36,515</u> | <u>\$ 35,780</u> |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 22,900 | \$ 22,900 | \$ 22,255 | \$ (645) |
| Intergovernmental | 17,480 | 17,480 | 37,935 | 20,455 |
| Miscellaneous | - | - | 15 | 15 |
| Total Revenues | \$ 40,380 | \$ 40,380 | \$ 60,205 | \$ 19,825 |
| Expenditures | | | | |
| Current | | | | |
| Public safety | | | | |
| Fire protection | \$ 3,688 | \$ 3,688 | \$ 4,331 | \$ (643) |
| Highways and streets | | | | |
| Township roads | \$ 33,100 | \$ 33,100 | \$ 53,731 | \$ (20,631) |
| Total Expenditures | \$ 36,788 | \$ 36,788 | \$ 58,062 | \$ (21,274) |
| Excess of Revenues Over (Under) Expenditures | \$ 3,592 | \$ 3,592 | \$ 2,143 | \$ (1,449) |
| Fund Balance - January 1 | 181,299 | 181,299 | 181,299 | - |
| Fund Balance - December 31 | \$ 184,891 | \$ 184,891 | \$ 183,442 | \$ (1,449) |

**KITTSON COUNTY
KITTSON, 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-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 North Kittson Rural Water System Agency Fund is used to account for the receipt and disbursements of funds for the North Kittson Rural Water System. This fund was closed in 2007.

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, 2007**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|--|----------------------|--------------|--------------|------------------------|
| <u>AGENCY</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 56,974 | \$ 3,140,467 | \$ 3,155,095 | \$ 42,346 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 56,974 | \$ 3,140,467 | \$ 3,155,095 | \$ 42,346 |
| <u>FLEXIBLE BENEFITS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 5,401 | \$ 46,775 | \$ 43,772 | \$ 8,404 |
| <u>Liabilities</u> | | | | |
| Accounts payable | \$ 5,401 | \$ 46,775 | \$ 43,772 | \$ 8,404 |
| <u>KAMAR SOLID WASTE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 86,805 | \$ 287,800 | \$ 276,335 | \$ 98,270 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 86,805 | \$ 287,800 | \$ 276,335 | \$ 98,270 |
| <u>KITTSOON COUNTY CHILDREN'S COLLABORATIVE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 114,229 | \$ 1,255 | \$ 15,674 | \$ 99,810 |
| <u>Liabilities</u> | | | | |
| Accounts payable | \$ 114,229 | \$ 1,255 | \$ 15,674 | \$ 99,810 |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|--|----------------------|--------------|--------------|------------------------|
| <u>KITTSOON-MARSHALL RURAL WATER SYSTEM</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 241,557 | \$ 5,564 | \$ 200,064 | \$ 47,057 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 241,557 | \$ 5,564 | \$ 200,064 | \$ 47,057 |
| <u>MAR-KIT LANDFILL</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 647,981 | \$ 1,706,090 | \$ 1,594,788 | \$ 759,283 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 647,981 | \$ 1,706,090 | \$ 1,594,788 | \$ 759,283 |
| <u>NORTH KITTSOON RURAL WATER SYSTEM</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 26,287 | \$ 141,130 | \$ 167,417 | \$ - |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 26,287 | \$ 141,130 | \$ 167,417 | \$ - |
| <u>PREPAID TAXES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 24,733 | \$ 13,227 | \$ 34,735 | \$ 3,225 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 24,733 | \$ 13,227 | \$ 34,735 | \$ 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, 2007**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|--|------------------------------|----------------------|----------------------|--------------------------------|
| <u>STATE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | <u>\$ 8,496</u> | <u>\$ 1,067,184</u> | <u>\$ 1,062,213</u> | <u>\$ 13,467</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | <u>\$ 8,496</u> | <u>\$ 1,067,184</u> | <u>\$ 1,062,213</u> | <u>\$ 13,467</u> |
| <u>TAXES AND PENALTIES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | <u>\$ 115,290</u> | <u>\$ 4,044,185</u> | <u>\$ 4,046,771</u> | <u>\$ 112,704</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | <u>\$ 115,290</u> | <u>\$ 4,044,185</u> | <u>\$ 4,046,771</u> | <u>\$ 112,704</u> |
| <u>TOTAL ALL AGENCY FUNDS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | <u>\$ 1,327,753</u> | <u>\$ 10,453,677</u> | <u>\$ 10,596,864</u> | <u>\$ 1,184,566</u> |
| <u>Liabilities</u> | | | | |
| Accounts payable | \$ 119,630 | \$ 48,030 | \$ 59,446 | \$ 108,214 |
| Due to other governments | 1,208,123 | 10,405,647 | 10,537,418 | 1,076,352 |
| Total Liabilities | <u>\$ 1,327,753</u> | <u>\$ 10,453,677</u> | <u>\$ 10,596,864</u> | <u>\$ 1,184,566</u> |

OTHER SCHEDULES

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2007**

| | Assets | | | Total |
|-----------------------------|-----------------------------------|---|----------------------------------|-------------------|
| | Cash and Pooled Investments | Special Assessments Receivable - Prior | Due from Other Governments | |
| County Ditches | | | | |
| 1 | \$ 105 | \$ - | \$ 96,476 | \$ 96,581 |
| 4 | 16,115 | 323 | 2,028 | 18,466 |
| 8 | 8,718 | - | 593 | 9,311 |
| 9 | 6,563 | 141 | - | 6,704 |
| 11 | 10,958 | - | - | 10,958 |
| 12 | 13,603 | - | 1,221 | 14,824 |
| 13 | 5,214 | - | - | 5,214 |
| 14 | 9,118 | - | - | 9,118 |
| 15 | 10,113 | 40 | - | 10,153 |
| 16 | 11,533 | - | - | 11,533 |
| 17 | 9,233 | - | - | 9,233 |
| 18 | 3,045 | - | - | 3,045 |
| 19 | 13,444 | - | 5,806 | 19,250 |
| 20 | - | - | - | - |
| 21 | - | - | 884 | 884 |
| 22 | 16,841 | 221 | - | 17,062 |
| 23 | 14,580 | 4 | - | 14,584 |
| 25 | 9,075 | - | 890 | 9,965 |
| 26 | 2,514 | - | - | 2,514 |
| 27 | 10,374 | 64 | 6,339 | 16,777 |
| 28 | 7,024 | 3 | - | 7,027 |
| 29 | 18,583 | 4 | 2,554 | 21,141 |
| 30 | 3,643 | 6 | - | 3,649 |
| 31 | 7,875 | - | - | 7,875 |
| 33 | 2,552 | - | - | 2,552 |
| Joint County Ditches | | | | |
| 31 | 10,946 | 25 | - | 10,971 |
| 32 | 4,691 | - | - | 4,691 |
| 33 | 10,710 | 2 | - | 10,712 |
| State Ditches | | | | |
| 1 | 915 | - | 72,411 | 73,326 |
| 48R | 13,050 | 10 | - | 13,060 |
| 50 | 561 | - | - | 561 |
| 72 | 32 | - | 19,999 | 20,031 |
| 84 | 13,612 | 215 | - | 13,827 |
| 85 | 10,900 | 32 | - | 10,932 |
| 90 | 10,514 | 84 | 1,485 | 12,083 |
| 95 | 19,931 | 205 | 9,419 | 29,555 |
| Two Rivers Watershed | | | | |
| County Ditch 10 | 291 | - | - | 291 |
| Joint County Ditch 3 | 54 | - | - | 54 |
| State Ditch 49 | 107 | - | - | 107 |
| Total | \$ 307,137 | \$ 1,379 | \$ 220,105 | \$ 528,621 |

Schedule 8

| Liabilities | | | | | | Fund Balances | Total |
|------------------|--------------------|--------------------------|------------------------------|---------------------------|-------------------|-------------------------|-------------------------------|
| Accounts Payable | Due to Other Funds | Due to Other Governments | Deferred Revenue Unavailable | Advances from Other Funds | Total | Unreserved Undesignated | Liabilities and Fund Balances |
| \$ - | \$ 51 | \$ - | \$ 97,006 | \$ 6,474 | \$ 103,531 | \$ (6,950) | \$ 96,581 |
| - | - | - | 2,262 | - | 2,262 | 16,204 | 18,466 |
| - | - | - | 568 | - | 568 | 8,743 | 9,311 |
| - | 278 | - | 17 | - | 295 | 6,409 | 6,704 |
| - | - | - | - | - | - | 10,958 | 10,958 |
| - | - | - | 1,161 | - | 1,161 | 13,663 | 14,824 |
| - | - | - | - | - | - | 5,214 | 5,214 |
| - | - | - | - | - | - | 9,118 | 9,118 |
| - | - | - | 16 | - | 16 | 10,137 | 10,153 |
| - | - | - | - | - | - | 11,533 | 11,533 |
| - | - | - | - | - | - | 9,233 | 9,233 |
| - | - | - | - | - | - | 3,045 | 3,045 |
| - | 75 | - | 5,565 | - | 5,640 | 13,610 | 19,250 |
| - | - | - | - | 44,126 | 44,126 | (44,126) | - |
| - | - | - | 847 | 9,692 | 10,539 | (9,655) | 884 |
| - | 15 | - | 221 | - | 236 | 16,826 | 17,062 |
| - | - | - | - | - | - | 14,584 | 14,584 |
| - | - | - | 853 | - | 853 | 9,112 | 9,965 |
| - | - | - | - | - | - | 2,514 | 2,514 |
| - | - | - | 6,075 | - | 6,075 | 10,702 | 16,777 |
| - | - | - | - | - | - | 7,027 | 7,027 |
| - | - | - | 2,452 | - | 2,452 | 18,689 | 21,141 |
| - | - | - | 6 | - | 6 | 3,643 | 3,649 |
| - | - | - | - | - | - | 7,875 | 7,875 |
| - | - | - | - | - | - | 2,552 | 2,552 |
| - | - | - | 10 | - | 10 | 10,961 | 10,971 |
| - | - | - | - | - | - | 4,691 | 4,691 |
| - | - | - | - | - | - | 10,712 | 10,712 |
| - | 193 | - | 72,823 | 75,497 | 148,513 | (75,187) | 73,326 |
| - | - | - | - | - | - | 13,060 | 13,060 |
| - | - | - | - | - | - | 561 | 561 |
| - | - | 1,228 | - | 23,445 | 24,673 | (4,642) | 20,031 |
| - | - | - | 83 | - | 83 | 13,744 | 13,827 |
| - | 79 | - | - | - | 79 | 10,853 | 10,932 |
| 40 | - | - | 84 | - | 124 | 11,959 | 12,083 |
| - | - | 3,730 | 2,045 | - | 5,775 | 23,780 | 29,555 |
| - | - | - | - | - | - | 291 | 291 |
| - | - | - | - | - | - | 54 | 54 |
| - | - | - | - | - | - | 107 | 107 |
| \$ 40 | \$ 691 | \$ 4,958 | \$ 192,094 | \$ 159,234 | \$ 357,017 | \$ 171,604 | \$ 528,621 |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 9

**BALANCE SHEET - BY UNORGANIZED TOWNSHIP
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND
DECEMBER 31, 2007**

| | <u>Klondike</u> | <u>McKinley</u> | <u>North Red River</u> | <u>Peatland</u> | <u>Total</u> |
|---|-------------------------|-------------------------|----------------------------|-------------------------|--------------------------|
| <u>Assets</u> | | | | | |
| Cash and pooled investments | \$ 27,497 | \$ 58,272 | \$ 50,915 | \$ 47,550 | \$ 184,234 |
| Taxes receivable - prior | 13 | - | - | - | 13 |
| Due from other governments | - | - | 8,342 | - | 8,342 |
| Total Assets | <u>\$ 27,510</u> | <u>\$ 58,272</u> | <u>\$ 59,257</u> | <u>\$ 47,550</u> | <u>\$ 192,589</u> |
| <u>Liabilities and Fund Balance</u> | | | | | |
| Liabilities | | | | | |
| Due to other funds | \$ 147 | \$ 219 | \$ 427 | \$ 12 | \$ 805 |
| Deferred revenue - unavailable | - | - | 8,342 | - | 8,342 |
| Total Liabilities | \$ 147 | \$ 219 | \$ 8,769 | \$ 12 | \$ 9,147 |
| Fund Balance | <u>27,363</u> | <u>58,053</u> | <u>50,488</u> | <u>47,538</u> | <u>183,442</u> |
| Total Liabilities and Fund Balance | <u>\$ 27,510</u> | <u>\$ 58,272</u> | <u>\$ 59,257</u> | <u>\$ 47,550</u> | <u>\$ 192,589</u> |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 10

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Primary Government |
|--|-------------------------------|
| Shared Revenue | |
| State | |
| County program aid | \$ 354,181 |
| Disparity reduction aid | 4,460 |
| Enhanced 911 | 63,050 |
| Highway users tax | 3,246,141 |
| Market value credit | 190,046 |
| PERA rate reimbursement | 12,520 |
| Police state aid | 23,038 |
| State gas tax | 10,808 |
| | \$ 3,904,244 |
| Reimbursement for Services | |
| State | |
| Minnesota Department of Human Services | \$ 286,217 |
| Payments | |
| Payments in lieu of taxes | \$ 156,874 |
| Grants | |
| Local | |
| KaMaR Solid Waste | \$ 13,010 |
| Markit Landfill | 25,854 |
| | \$ 38,864 |
| State | |
| Minnesota Department/Board of | |
| Corrections | \$ 7,399 |
| Human Services | 237,683 |
| Natural Resources | 85,827 |
| Peace Officers | 2,010 |
| Public Safety | 106,860 |
| Transportation | 204,037 |
| Pollution Control Agency | 52,039 |
| Water and Soil Resources | 60,164 |
| | \$ 756,019 |
| Federal | |
| Department of | |
| Justice | \$ 21,668 |
| Transportation | 134,494 |
| Health and Human Services | 127,634 |
| Homeland Security | 156,247 |
| | \$ 440,043 |
| Total Grants | \$ 1,234,926 |
| Total Intergovernmental Revenue | \$ 5,582,261 |

MANAGEMENT AND COMPLIANCE SECTION

**KITTSON COUNTY
HALLOCK, MINNESOTA**

Schedule 11

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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*." The significant deficiencies were not material weaknesses.
- C. No instances of noncompliance material to the financial statements of Kittson County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Kittson County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs were:

| | |
|-------------------------------------|---------------|
| Highway Planning and Construction | CFDA # 20.205 |
| Disaster Grants - Public Assistance | CFDA # 97.036 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Kittson County was determined not to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM 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.

ITEM ARISING THIS YEAR

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.

III. OTHER FINDINGS AND RESPONSES

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-3 Ditch Unreserved, Undesignated Fund Balances

Five of the 39 active individual ditch funds had deficit unreserved, undesignated fund balances as of December 31, 2007. The individual ditch fund deficits totaled \$140,560, with the largest individual ditch fund deficit being \$75,187.

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.



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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, 2007, and have issued our report dated September 8, 2008. 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 and 07-1, 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, we believe that the significant deficiencies described above are not material weaknesses.

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 is a management practices comment, item 96-3. We believe this recommendation to be of benefit to Kittson County and is 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

September 8, 2008



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 programs for the year ended December 31, 2007. The County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal 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 programs for the year ended December 31, 2007.

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, 2007, and have issued our report thereon dated September 8, 2008. 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

September 8, 2008

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 12

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

| Federal Grantor Pass Through Agency Grant Program Title | Federal CFDA Number | Primary Government Expenditures |
|--|------------------------------------|--|
| U.S. Department of Justice | | |
| Passed Through Minnesota Department of Public Safety Crime Victim Assistance | 16.575 | \$ <u>21,668</u> |
| U.S. Department of Transportation | | |
| Passed Through Minnesota Department of Transportation Highway Planning and Construction | 20.205 | \$ <u>134,494</u> |
| U.S. Department of Health and Human Services | | |
| Passed Through Minnesota Board on Aging/Northwest Area Agency on Aging Special Program for the Aging - Title III B | 93.044 | \$ 3,758 |
| Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families | 93.558 | 36,401 |
| Child Care and Development Block Grant | 93.575 | 5,316 |
| Child Care Mandatory and Matching Funds | 93.596 | 8,915 |
| Foster Care Title IV-E | 93.658 | 9,574 |
| Social Services Block Grant | 93.667 | 63,397 |
| State Children's Insurance Program | 93.767 | 35 |
| Block Grants for Community Mental Health Services | 93.958 | <u>238</u> |
| Total U.S. Department of Health and Human Services | | \$ <u>127,634</u> |

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 12
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

| Federal Grantor Pass Through Agency Grant Program Title | Federal CFDA Number | Primary Government Expenditures |
|---|------------------------------------|--|
| U.S. Department of Homeland Security | | |
| Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance | 97.036 | \$ 292,575 |
| Homeland Security Grant Program | 97.067 | 7,654 |
| Total U.S. Department of Homeland Security | | \$ 300,229 |
| Total Federal Awards | | \$ 584,025 |

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. The County's basic financial statements include the operations of the North Kittson Rural Water System Component Unit. The Water System expended no federal awards in 2007.
4. There were no pass-through grants to subrecipients or other agencies in 2007.
5. Reconciliation to Schedule of Intergovernmental Revenues

| | |
|--|-------------------|
| Federal grant revenue per Schedule of Intergovernmental Revenues | \$ 440,043 |
| Public Assistance grant expended in 2007 for revenues recognized in previous years | 143,982 |
| Expenditures Per Schedule of Expenditures of Federal Awards | <u>\$ 584,025</u> |