

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2015**

**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, 2015**

| <u>Office</u>            | <u>Name</u>         | <u>Term Expires</u> |
|--------------------------|---------------------|---------------------|
| <b>Commissioners</b>     |                     |                     |
| 1 <sup>st</sup> District | Craig Spilde        | January 2017        |
| 2 <sup>nd</sup> District | John Anderson       | January 2017        |
| 3 <sup>rd</sup> District | Joe Bouvette, Chair | January 2019        |
| 4 <sup>th</sup> District | Leon Olson          | January 2017        |
| 5 <sup>th</sup> District | Betty Younggren     | January 2019        |
| <b>Officers</b>          |                     |                     |
| Elected:                 |                     |                     |
| Attorney                 | Roger Malm          | January 2019        |
| Sheriff                  | Kenny Hultgren      | January 2019        |
| Appointed:               |                     |                     |
| Administrator            | Eric Christensen    | Indefinite          |
| Assessor                 | Marian Paulson      | December 2016       |
| Environmental Officer    | Barb O'Hara         | Indefinite          |
| Highway Engineer         | Kelly Bengtson      | May 2019            |
| Medical Examiner         | Mary Ann Sens       | Indefinite          |
| Recorder                 | Kristi Hultgren     | Indefinite          |
| Social Services Director | Kathleen Johnson    | Indefinite          |
| Veterans Service Officer | Bob Cameron         | May 2017            |

## **FINANCIAL SECTION**

Colleen Hoffman, Director  
Crystelle Philipp, CPA  
Marit Knutson, CPA



## Hoffman, Philipp, & Knutson, PLLC

1541 Highway 59 South | Thief River Falls, MN 56701 | Phone: 218-681-4078 | [choffman@mncable.net](mailto:choffman@mncable.net)

### **INDEPENDENT AUDITOR'S REPORT**

Board of County Commissioners  
Kittson County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kittson County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Kittson County, Minnesota, as of December 31, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter – Change in Accounting Principle**

As discussed in the Notes to the Financial Statements, the County has adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

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

### *Supplementary Information*

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



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016, on our consideration of Kittson County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Hoffman, Philipp, & Knutson". The signature is written in a cursive style and is contained within a thin blue rectangular border.

Hoffman, Philipp, & Knutson, PLLC

October 31, 2016



410 5th Street S. Suite 214  
Hallock MN 56728  
(218)-843-2670

## **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, 2015. 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**

During the current year, Kittson County adopted the accounting principles discussed in further detail in the Notes to the Financial Statements. Such accounting principles have been adopted prospectively, and therefore, comparative information in this section has not been restated to reflect the effect of the adoption of these accounting principles.

The total net position of governmental activities is \$66,628,097, of which \$60,282,557 is the net investment in capital assets, \$2,477,635 is restricted for specific purposes, and \$3,867,905 is unrestricted. The total net position of governmental activities decreased by \$998,657 for the year ended December 31, 2015. This is attributed primarily to the recognition of net position liability of \$2,894,732.

At the close of 2015, the County's governmental funds reported combined ending fund balances of \$7,239,293, an increase of \$555,879 from the prior year. Of the total fund balance amount, \$288,964 is non-spendable, \$1,378,362 is legally or contractually restricted, \$2,370,572 is formally committed for specific purposes, \$1,500,762 is assigned for specific purposes, and \$1,700,633 is noted as unassigned fund balance. Maintaining an adequate fund balance is necessary to provide County services throughout the year.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

#### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances. These statements include all assets 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.

"An Equal Opportunity Employer"

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

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

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

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

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

## **Fund Financial Statements**

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

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

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

The County reports two governmental fund types: General and Special Revenue. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, the Road and Bridge Special Revenue Fund, and the Social Services Special Revenue Fund, all of which are considered to be major funds. Data from the remaining special revenue funds are combined into a

single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in combining statements after the notes to the financial statements.

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

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

### **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 25 of this report.

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

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Over time, net position serves as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$66,628,097 at the close of 2015. The largest portion of the County's net position (approximately 90 percent) reflects its net investment in capital assets (i.e., land, construction in progress, infrastructure, buildings and improvements, and machinery and equipment), used to acquire those assets. It should be noted that this amount is not available for future spending. Approximately 4 percent of the County's net position is restricted and 6 percent of the County's net position is unrestricted. The unrestricted net position amount of \$3,867,905, as of December 31, 2015, 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 \$1,696,824 from the prior year primarily due to the increase in capital assets which resulted from the County's highway construction projects. Total liabilities increased by \$2,761,049, from the prior year, mainly due to the implementation of GASB 68, resulting in the recognition of net pension liability. This resulted in a decreased net position of \$998,657 from the prior year.

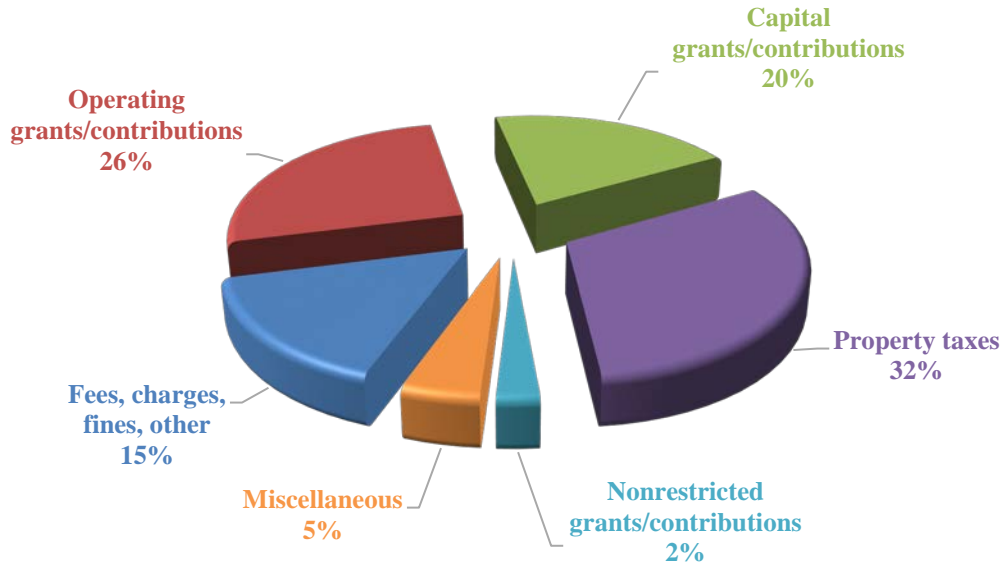
## NET POSITION

|                                   | Primary Government      |                      |
|-----------------------------------|-------------------------|----------------------|
|                                   | Governmental Activities |                      |
|                                   | 2015                    | 2014                 |
| Current and other assets          | \$ 9,417,251            | \$ 9,417,246         |
| Capital assets                    | 61,032,557              | 59,335,738           |
| Total assets                      | <u>\$ 70,449,808</u>    | <u>\$ 68,752,984</u> |
| Deferred outflows - pensions      | \$ 460,046              | \$ -                 |
| Other liabilities                 | \$ 430,007              | \$ 539,324           |
| Long-term liabilities outstanding | 3,457,272               | 586,906              |
| Total liabilities                 | <u>\$ 3,887,279</u>     | <u>\$ 1,126,230</u>  |
| Deferred inflows                  | \$ 394,478              | \$ -                 |
| Net position                      |                         |                      |
| Net investment in capital assets  | \$ 60,282,557           | \$ 59,335,738        |
| Restricted                        | 2,477,635               | 2,881,166            |
| Unrestricted                      | 3,867,905               | 5,409,850            |
| Total net position                | <u>\$ 66,628,097</u>    | <u>\$ 67,626,754</u> |

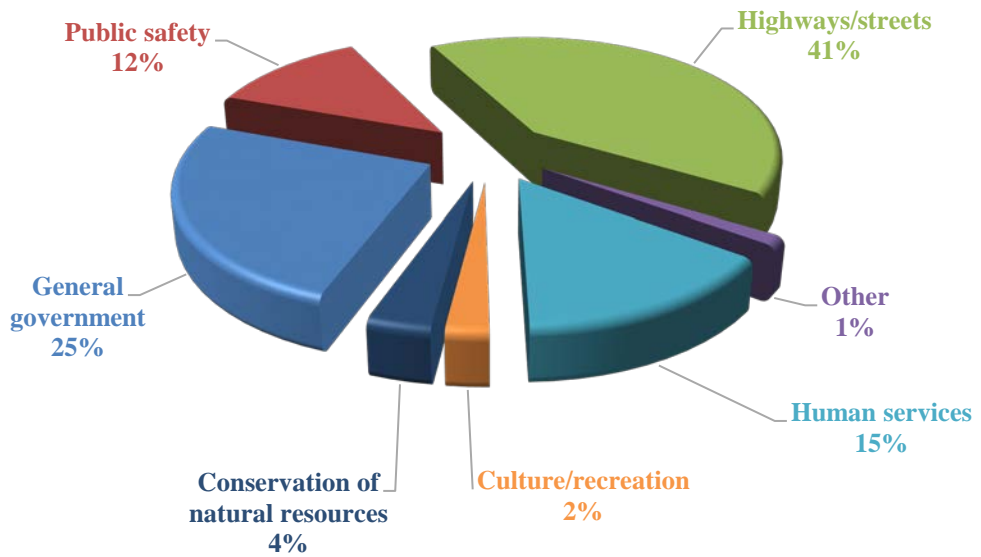
## CHANGES IN NET POSITION

|  | Primary Government      |                      |
|--|-------------------------|----------------------|
|  | Governmental Activities |                      |
|  | 2015                    | 2014                 |
| Revenues   |                         |                      |
| Program Revenues   |                         |                      |
| Fees, charges, fines and other                               | \$ 1,735,174            | \$ 2,249,419         |
| Operating grants and contributions                           | 2,909,238               | 3,069,503            |
| Capital grants and contributions                             | 2,213,924               | 2,724,698            |
| General Revenues and Transfers                               |                         |                      |
| Property taxes   | 3,574,051               | 3,342,979            |
| Grants and contributions not restricted to specific programs | 279,686                 | 234,072              |
| Payments in lieu of taxes                                    | 188,448                 | 223,416              |
| Insurance dividends  | 131,783                 | 146,045              |
| Investment earnings  | 192,005                 | 205,219              |
| Total revenues   | <u>\$ 11,224,309</u>    | <u>\$ 12,195,351</u> |
| Expenses   |                         |                      |
| General government   | \$ 2,362,479            | \$ 2,489,792         |
| Public safety  | 1,139,315               | 1,264,690            |
| Highways and streets   | 3,893,023               | 2,506,528            |
| Sanitation   | 73,537                  | 99,314               |
| Human services   | 1,396,834               | 1,368,803            |
| Health   | 36,120                  | 37,513               |
| Culture and recreation                                       | 223,057                 | 262,575              |
| Conservation of natural resources                            | 330,252                 | 419,844              |
| Economic development   | 11,800                  | 118,834              |
| Total expenses   | <u>\$ 9,466,417</u>     | <u>\$ 8,567,893</u>  |
| Increase (decrease)  | \$ 1,757,892            | \$ 3,627,458         |
| Net assets, January 1, as previously reported                | \$ 67,626,754           | \$ 63,999,296        |
| Prior period adjustment                                      | (2,756,549)             | -                    |
| Net position, January 1, as restated                         | <u>\$ 64,870,205</u>    | <u>\$ 63,999,296</u> |
| Net position, December 31                                    | <u>\$ 66,628,097</u>    | <u>\$ 67,626,754</u> |

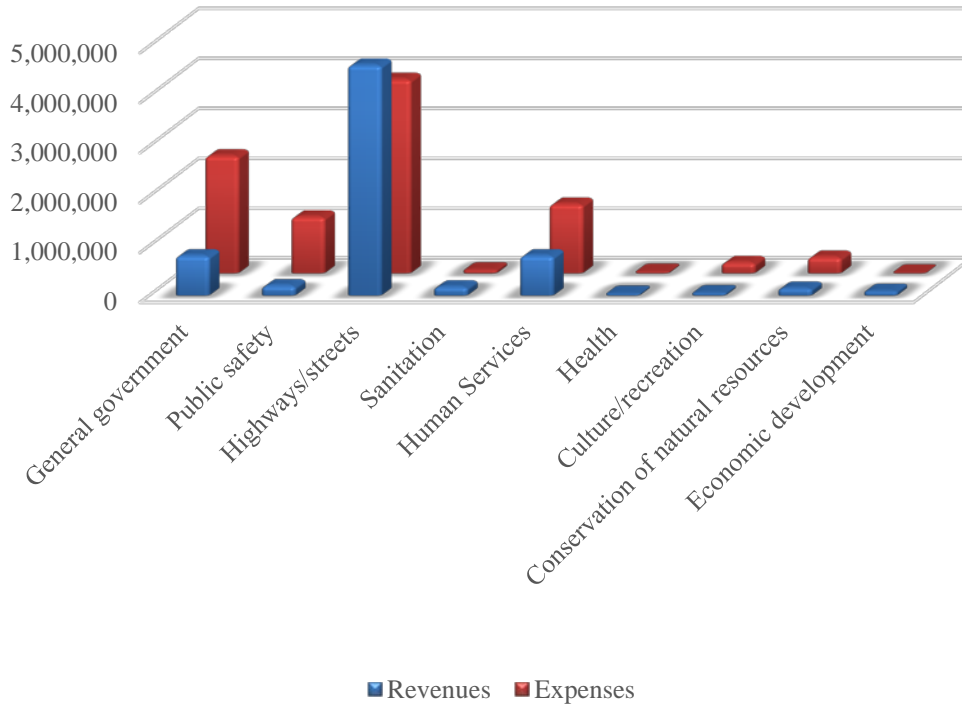
## Revenues by Source



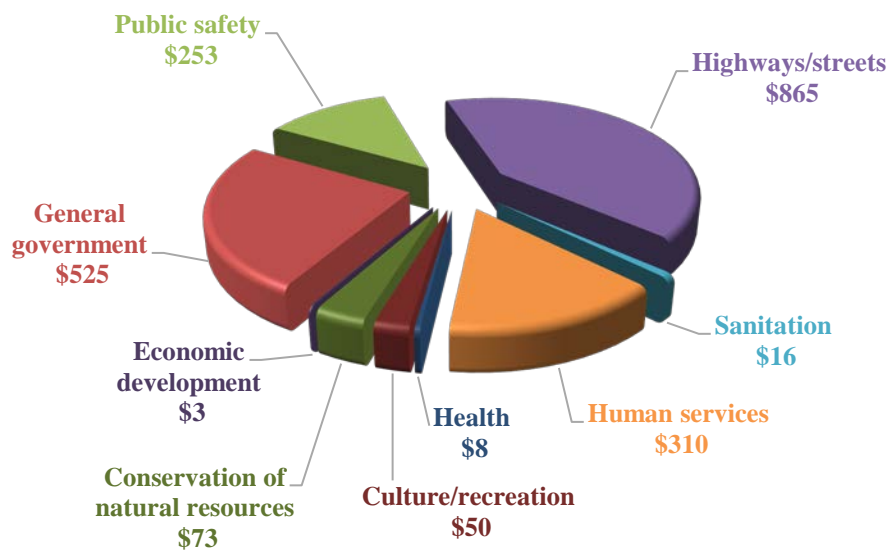
## Expenses by Function



## Program Revenues & Expenses



## Expenditures Per Capita 4,503 Population as of July 1, 2015



## **FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

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

### **Governmental Funds**

At the end of 2015, the County's governmental funds reported combined ending fund balances of \$7,239,293. Of this amount, approximately 4 percent constitutes non-spendable fund balance, 19 percent constitutes legally or contractually restricted fund balance, 33 percent constitutes formally committed fund balance, 21 percent constitutes specifically assigned fund balance, and 23 percent constitutes unassigned fund balance.

The General Fund is the operating fund of the County. At the end of the current fiscal year, the General Fund's total fund balance was \$4,951,677. The General Fund's restricted fund balance was \$780,509, committed fund balance was \$2,040,572, and unassigned fund balance was \$2,130,596. As a measure of the General Fund's liquidity, it is useful to compare both unrestricted fund balance and total fund balance to total fund expenditures for 2015. Unrestricted fund balance represents 62 percent of total General Fund expenditures, while total fund balance represents 143 percent of that same amount.

In 2015, the fund balance amount in the General Fund increased by \$63,658 primarily due to increased interest income from investments and decreased expenditures on IT related items.

The fund balance of the Road and Bridge Special Revenue Fund increased by \$228,394 in 2015, due to road construction costs being lower than what was budgeted.

The fund balance of the Social Services Special Revenue Fund increased \$179,347 from the prior year due to increased receipts of grant money from state entities.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

There was one amendment to the original budgeted revenues and expenditures as approved for 2015, for new furniture for the remodeling of the Sheriff's Department. Source of funding for this appropriation is existing fund balance committed for capital purchases. Actual revenues were more than overall budgeted revenues by \$72,083, as a result of increased interest income. Actual expenditures were less than overall budgeted expenditures by \$217,354 as a result of cost savings in IT (data processing) and lack of use of Stonegarden funds.

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

#### **Capital Assets**

The County's investment in capital assets for its governmental activities as of December 31, 2015 amounted to \$61,032,557 (net of accumulated depreciation). The total increase in the County's investment in capital assets for the current fiscal year was approximately five percent. This was primarily due to the ongoing construction of highway projects and completed projects added to infrastructure.



|                             | Governmental Activities |                      |
|-----------------------------|-------------------------|----------------------|
|                             | 2015                    | 2014                 |
| Land                        | \$ 190,821              | \$ 190,821           |
| Construction in progress    | 2,202,174               | 2,730,471            |
| Infrastructure              | 55,638,131              | 53,867,341           |
| Buildings and improvements  | 1,463,732               | 1,502,324            |
| Machinery and equipment     | 1,537,699               | 1,044,781            |
| <b>Total capital assets</b> | <b>\$ 61,032,557</b>    | <b>\$ 59,335,738</b> |

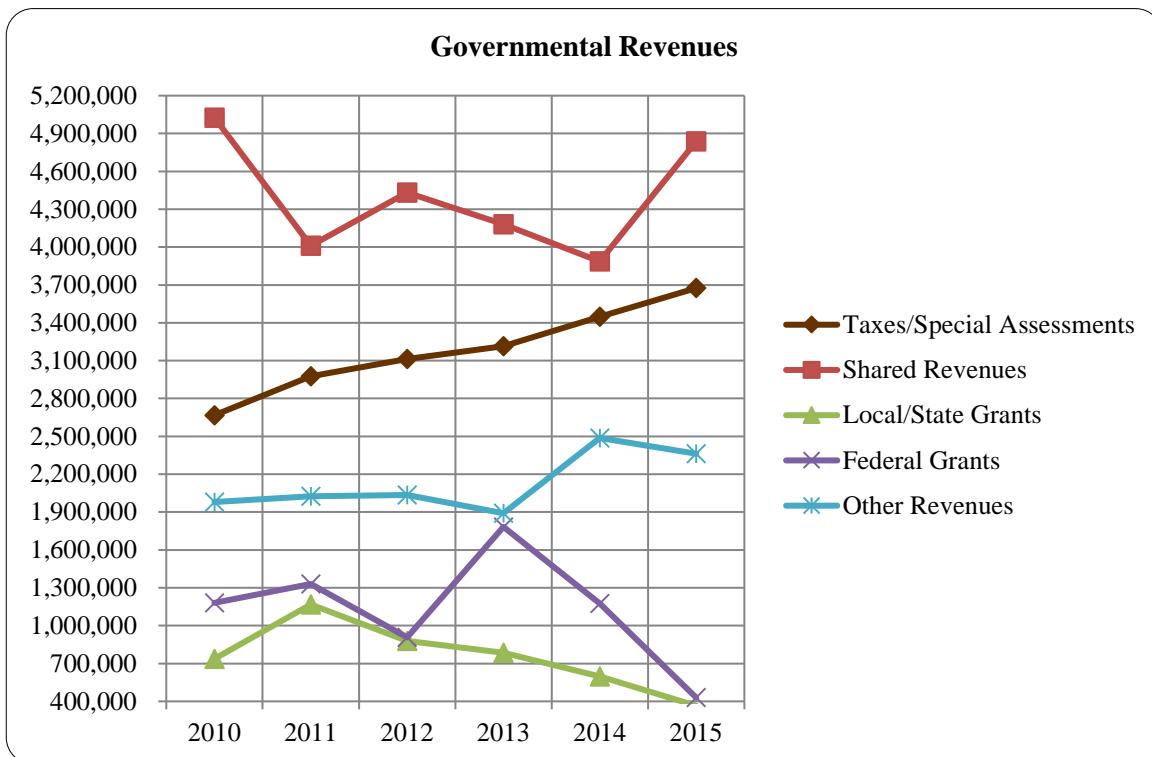
Additional information on the County’s capital assets can be found in the notes to the financial statements.

### Long-Term Debt

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

### ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

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



- Kittson County's unemployment rate was 4.4 percent as of December, 2015. This is higher than the statewide rate of 3.7 percent and lower than the national average rate of 5.0 percent.
- Standard & Poor's Ratings Services assigned its "AA-" long-term rating to Kittson County's \$945,000 General Obligation Water Revenue Crossover Refunding Bonds, Series 2011A for the discretely presented component unit, North Kittson Rural Water System. Standard & Poor's has also affirmed its "AAA" enhanced program rating.
- Kittson County's population at July 1, 2015 was 4,503, a decrease of 49 since 2010. This ranks Kittson County 84<sup>th</sup> of 87 in the State of Minnesota.
- On December 1, 2015, Kittson County set its 2016 revenue and expenditure budgets.

### **REQUESTS FOR INFORMATION**

This annual financial report is designed to provide a general overview of Kittson County for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Kittson County Administrator, Kittson County Courthouse, 410 Fifth Street South, Suite 208, Hallock, MN 56728.

## **BASIC FINANCIAL STATEMENTS**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2015**

|   | <b>Primary Government<br/>Governmental<br/>Activities</b> | <b>Discretely<br/>Presented<br/>Component Unit</b> |
|---|---|--|
| <u><b>Assets</b></u>                          |   |  |
| Cash and pooled investments                   | \$ 7,802,020  | \$ 302,394   |
| Investments                                   | 140,000   | -  |
| Taxes receivable - prior                      | 60,832  | -  |
| Special assessments receivable - prior        | 551   | -  |
| Accounts receivable                           | 17,062  | 56,948   |
| Accrued interest receivable                   | 93,280  | -  |
| Due from other governments                    | 1,014,542   | 307  |
| Inventories                                   | 288,964   | -  |
| Restricted assets                             |   |  |
| Cash and pooled investments                   | -   | 79,672   |
| Investments                                   | -   | 70,000   |
| Special assessments receivable                |   |  |
| Current                                       | -   | 6,392  |
| Prior   | -   | 15,437   |
| Accrued interest receivable                   | -   | 680  |
| Pooled investments for asset replacement      | -   | 1,386,782  |
| Surcharge receivable for debt repayment       | -   | 6,380  |
| Special assessments receivable - noncurrent   | -   | 554,700  |
| Capital assets                                |   |  |
| Non-depreciable                               | 2,392,995   | 108,045  |
| Depreciable - net of accumulated depreciation | 58,639,562  | 9,610,837  |
| <b>Total Assets</b>                           | <b>\$ 70,449,808</b>                                      | <b>\$ 12,198,574</b>                               |
| <u><b>Deferred Outflows of Resources</b></u>  |   |  |
| Due from other governments                    | \$ -  | \$ 451,000   |
| Related to pensions                           | 460,046   | 17,923   |
| <b>Total Deferred Outflows of Resources</b>   | <b>\$ 460,046</b>   | <b>\$ 468,923</b>                                  |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 1  
(Continued)**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2015**

|   | <b>Primary Government<br/>Governmental<br/>Activities</b> | <b>Discretely<br/>Presented<br/>Component Unit</b> |
|---|---|--|
| <b><u>Liabilities</u></b>                   |   |  |
| Accounts payable                            | \$ 222,259  | \$ 20,781  |
| Salaries payable                            | 125,404   | -  |
| Accrued payroll taxes                       | -   | 5,829  |
| Contracts payable                           | 34,383  | -  |
| Due to other governments                    | 47,961  | 3,804  |
| Customer deposits                           | -   | 11,700   |
| Payable from restricted assets              |   |  |
| General obligation bonds - current          | -   | 155,000  |
| Long-term liabilities                       |   |  |
| Due within one year                         | 169,282   | 12,145   |
| Due in more than one year                   | 3,287,990   | 755,899  |
|   | <b>\$ 3,887,279</b>                                       | <b>\$ 965,158</b>                                  |
| <b><u>Deferred Inflows of Resources</u></b> |   |  |
| Related to pensions                         | \$ 394,478  | \$ 13,578  |
| <b><u>Net Position</u></b>                  |   |  |
| Net investment in capital assets            | \$ 60,282,557   | \$ 9,528,304                                       |
| Amounts restricted for                      |   |  |
| General government                          | 351,134   | -  |
| Public safety                               | 422,831   | -  |
| Highways and streets                        | 1,697,126   | -  |
| Conservation of natural resources           | 6,544   | -  |
| Equipment replacement                       | -   | 1,386,782  |
| Debt service                                | -   | 149,672  |
| Unrestricted amounts                        | 3,867,905   | 624,003  |
|   | <b>\$ 66,628,097</b>                                      | <b>\$ 11,688,761</b>                               |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|                                   | <u>Expenses</u>            | <u>Fees, Charges,<br/>Fines and Other</u> | <u>Program Revenues<br/>Operating<br/>Grants and<br/>Contributions</u> |
|-----------------------------------|----------------------------|---|--|
| <b><u>Functions/Programs</u></b>  |                            |   |  |
| <b>Primary Government</b>         |                            |   |  |
| <b>Governmental activities</b>    |                            |   |  |
| General government                | \$ 2,362,479               | \$ 797,228                                | \$ 7,500   |
| Public safety                     | 1,139,315                  | 36,305                                    | 165,713  |
| Highways and streets              | 3,893,023                  | 624,822                                   | 1,783,750  |
| Sanitation                        | 73,537                     | 27,198                                    | 148,500  |
| Human services                    | 1,396,834                  | 157,139                                   | 647,555  |
| Health                            | 36,120                     | -   | 44,375   |
| Culture and recreation            | 223,057                    | -   | 58,393   |
| Conservation of natural resources | 330,252                    | 92,482                                    | 53,452   |
| Economic development              | 11,800                     | -   | -  |
| <b>Total Primary Government</b>   | <b><u>\$ 9,466,417</u></b> | <b><u>\$ 1,735,174</u></b>                | <b><u>\$ 2,909,238</u></b>   |
| <b>Component Unit</b>             |                            |   |  |
| North Kittson Rural Water System  | \$ 757,183                 | \$ 656,817                                | \$ -   |

**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 position**

**Net position - January 1, as previously reported**

Prior period adjustment

**Net position - January 1, as restated**

**Net position - December 31**

**EXHIBIT 2**

| Net (Expense) Revenue and<br>Changes in Net Position |  |   |
|--|--|---|
| Capital<br>Grants and<br>Contributions               | Primary Government<br>Governmental<br>Activities | Discretely<br>Presented<br>Component Unit |
| \$ -   | \$ (1,557,751)                                   | \$ -                                      |
| -  | (937,297)  | -   |
| 2,213,924  | 729,473  | -   |
| -  | 102,161  | -   |
| -  | (592,140)  | -   |
| -  | 8,255  | -   |
| -  | (164,664)  | -   |
| -  | (184,318)  | -   |
| -  | (11,800)   | -   |
| <b>\$ 2,213,924</b>                                  | <b>\$ (2,608,081)</b>                            | <b>\$ -</b>                               |
| <b>\$ 104,348</b>                                    | <b>\$ -</b>                                      | <b>\$ 3,982</b>                           |
|  | \$ 3,574,051                                     | \$ -                                      |
|  | 279,686  | 307                                       |
|  | 188,448  | -   |
|  | 131,783  | -   |
|  | 192,005  | 3,007                                     |
|  | <b>\$ 4,365,973</b>                              | <b>\$ 3,314</b>                           |
|  | <b>\$ 1,757,892</b>                              | <b>\$ 7,296</b>                           |
|  | <b>\$ 67,626,754</b>                             | <b>\$ 11,803,070</b>                      |
|  | (2,756,549)                                      | (121,605)                                 |
|  | <b>\$ 64,870,205</b>                             | <b>\$ 11,681,465</b>                      |
|  | <b>\$ 66,628,097</b>                             | <b>\$ 11,688,761</b>                      |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2015**

|   | General Fund        | Special Revenue Funds |                     | Other Governmental Funds<br>(Statement 1) | Total Governmental Funds |
|---|---------------------|-----------------------|---------------------|---|--------------------------|
|   |                     | Road and Bridge       | Social Services     |   |                          |
| <b>Assets</b>   |                     |                       |                     |   |                          |
| <b>Assets</b>   |                     |                       |                     |   |                          |
| Cash and pooled investments   | \$ 4,807,277        | \$ 707,973            | \$ 1,501,890        | \$ 784,880                                | \$ 7,802,020             |
| Investments   | 100,000             | -                     | 40,000              | -   | 140,000                  |
| Taxes receivable - prior  | 39,052              | 9,729                 | 11,721              | 330                                       | 60,832                   |
| Special assessments receivable - prior                                    | -                   | -                     | -                   | 551                                       | 551                      |
| Accounts receivable   | 9,559               | 7,503                 | -                   | -   | 17,062                   |
| Accrued interest receivable   | 93,273              | -                     | 7                   | -   | 93,280                   |
| Due from other funds  | 182                 | 4,546                 | -                   | -   | 4,728                    |
| Due from other governments  | 25,188              | 884,990               | 99,464              | 4,900                                     | 1,014,542                |
| Inventories   | -                   | 288,964               | -                   | -   | 288,964                  |
| Advances to other funds   | 65,243              | -                     | -                   | -   | 65,243                   |
| <b>Total Assets</b>   | <b>\$ 5,139,774</b> | <b>\$ 1,903,705</b>   | <b>\$ 1,653,082</b> | <b>\$ 790,661</b>                         | <b>\$ 9,487,222</b>      |
| <b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>       |                     |                       |                     |   |                          |
| <b>Liabilities</b>  |                     |                       |                     |   |                          |
| Accounts payable  | \$ 65,066           | \$ 104,922            | \$ 51,141           | \$ 1,130                                  | \$ 222,259               |
| Salaries payable  | 65,266              | 38,724                | 21,414              | -   | 125,404                  |
| Contracts payable   | -                   | 34,383                | -                   | -   | 34,383                   |
| Due to other funds  | -                   | -                     | 182                 | 4,546                                     | 4,728                    |
| Due to other governments  | 24,824              | 1,898                 | 20,946              | 293                                       | 47,961                   |
| Advances from other funds   | -                   | -                     | -                   | 65,243                                    | 65,243                   |
| <b>Total Liabilities</b>  | <b>\$ 155,156</b>   | <b>\$ 179,927</b>     | <b>\$ 93,683</b>    | <b>\$ 71,212</b>                          | <b>\$ 499,978</b>        |
| <b>Deferred Inflows of Resources</b>                                      |                     |                       |                     |   |                          |
| Taxes   | \$ 32,941           | \$ 7,880              | \$ 9,626            | \$ 160                                    | \$ 50,607                |
| Special assessments   | -                   | -                     | -                   | 218                                       | 218                      |
| County State Aid Highway Allotment  | -                   | 1,697,126             | -                   | -   | 1,697,126                |
| <b>Total Deferred Inflows of Resources</b>                                | <b>\$ 32,941</b>    | <b>\$ 1,705,006</b>   | <b>\$ 9,626</b>     | <b>\$ 378</b>                             | <b>\$ 1,747,951</b>      |
| <b>Fund Balances</b>  |                     |                       |                     |   |                          |
| Non-spendable   | \$ -                | \$ 288,964            | \$ -                | \$ -                                      | \$ 288,964               |
| Restricted  | 780,509             | 113,512               | -                   | 484,341                                   | 1,378,362                |
| Committed   | 2,040,572           | -                     | 330,000             | -   | 2,370,572                |
| Assigned  | -                   | -                     | 1,219,773           | 280,989                                   | 1,500,762                |
| Unassigned  | 2,130,596           | (383,704)             | -                   | (46,259)                                  | 1,700,633                |
| <b>Total Fund Balances</b>  | <b>\$ 4,951,677</b> | <b>\$ 18,772</b>      | <b>\$ 1,549,773</b> | <b>\$ 719,071</b>                         | <b>\$ 7,239,293</b>      |
| <b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b> | <b>\$ 5,139,774</b> | <b>\$ 1,903,705</b>   | <b>\$ 1,653,082</b> | <b>\$ 790,661</b>                         | <b>\$ 9,487,222</b>      |



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2015**

|  |              |                          |
|--|--------------|--------------------------|
| <b>Fund balances - total governmental funds (Exhibit 3)</b>  | <b>\$</b>    | <b>7,239,293</b>         |
| <p>Amounts reported for governmental activities in the<br/>Statement of Net Position are different because:</p>  |              |                          |
| <p>Capital assets, net of accumulated depreciation, used in governmental activities<br/>are not financial resources and, therefore, are not reported in the governmental funds.</p>  |              | 61,032,557               |
| <p>Other long-term assets are not available to pay for current-period expenditures<br/>and, therefore, are deferred in the governmental funds.</p>   |              | 1,747,951                |
| <p>Long-term liabilities are not due and payable in the current period and,<br/>therefore, are not reported in the governmental funds.</p>   |              |                          |
| Compensated absences payable   | \$ (470,860) |                          |
| Other post-employment benefits   | (91,680)     | (562,540)                |
|  |              |                          |
| <p>Net pension liability and related outflows/inflows of resources represent the<br/>allocation of the pension obligations of the statewide plans to the County. Such<br/>balances are not reported in the governmental funds:</p> |              |                          |
| Deferred outflows of resources related to pensions   | \$ 460,046   |                          |
| Deferred inflows of resources related to pensions  | (394,478)    |                          |
| Net pension liability  | (2,894,732)  | (2,829,164)              |
|  |              |                          |
| <b>Net position of governmental activities (Exhibit 1)</b>   | <b>\$</b>    | <b><u>66,628,097</u></b> |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT 5*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|   | General Fund        | Special Revenue Funds |                     | Other Government Funds<br>(Statement 2) | Total Governmental Funds |
|---|---------------------|-----------------------|---------------------|---|--------------------------|
|   |                     | Road and Bridge       | Social Services     |   |                          |
| <b>Revenues</b>                           |                     |                       |                     |   |                          |
| Taxes                                     | \$ 2,158,818        | \$ 692,123            | \$ 731,027          | \$ 33,920                               | \$ 3,615,888             |
| Special assessments                       | -                   | -                     | -                   | 58,919                                  | 58,919                   |
| Licenses and permits                      | 9,673               | -                     | -                   | -                                       | 9,673                    |
| Intergovernmental                         | 812,761             | 4,489,107             | 701,592             | 34,845                                  | 6,038,305                |
| Charges for services                      | 127,123             | 522,421               | 85,604              | 10,355                                  | 745,503                  |
| Fines and forfeitures                     | 3,950               | -                     | -                   | -                                       | 3,950                    |
| Investment earnings                       | 192,005             | -                     | -                   | -                                       | 192,005                  |
| Land and timber sales                     | -                   | -                     | -                   | 19,794                                  | 19,794                   |
| Miscellaneous                             | 236,230             | 59,981                | 71,535              | 619,083                                 | 986,829                  |
| <b>Total Revenues</b>                     | <b>\$ 3,540,560</b> | <b>\$ 5,763,632</b>   | <b>\$ 1,589,758</b> | <b>\$ 776,916</b>                       | <b>\$ 11,670,866</b>     |
| <b>Expenditures</b>                       |                     |                       |                     |   |                          |
| <b>Current</b>                            |                     |                       |                     |   |                          |
| General government                        | \$ 1,668,412        | \$ -                  | \$ -                | \$ 566,354                              | \$ 2,234,766             |
| Public safety                             | 1,141,498           | -                     | -                   | 6,082                                   | 1,147,580                |
| Highways and streets                      | -                   | 5,252,643             | -                   | 60,441                                  | 5,313,084                |
| Sanitation                                | 73,119              | -                     | -                   | -                                       | 73,119                   |
| Human services                            | -                   | -                     | 1,410,411           | -                                       | 1,410,411                |
| Health                                    | 36,120              | -                     | -                   | -                                       | 36,120                   |
| Culture and recreation                    | 223,057             | -                     | -                   | -                                       | 223,057                  |
| Conservation of natural resources         | 232,122             | -                     | -                   | 97,103                                  | 329,225                  |
| Economic development                      | 11,800              | -                     | -                   | -                                       | 11,800                   |
| <b>Total Current</b>                      | <b>\$ 3,386,128</b> | <b>\$ 5,252,643</b>   | <b>\$ 1,410,411</b> | <b>\$ 729,980</b>                       | <b>\$ 10,779,162</b>     |
| <b>Capital Outlay</b>                     |                     |                       |                     |   |                          |
| General government                        | \$ 19,884           | \$ -                  | \$ -                | \$ -                                    | \$ 19,884                |
| Public safety                             | 70,890              | -                     | -                   | -                                       | 70,890                   |
| Highways and streets                      | -                   | 205,348               | -                   | -                                       | 205,348                  |
| <b>Total Capital Outlay</b>               | <b>\$ 90,774</b>    | <b>\$ 205,348</b>     | <b>\$ -</b>         | <b>\$ -</b>                             | <b>\$ 296,122</b>        |
| <b>Total Expenditures</b>                 | <b>\$ 3,476,902</b> | <b>\$ 5,457,991</b>   | <b>\$ 1,410,411</b> | <b>\$ 729,980</b>                       | <b>\$ 11,075,284</b>     |
| <b>Net Change in Fund Balance</b>         | <b>\$ 63,658</b>    | <b>\$ 305,641</b>     | <b>\$ 179,347</b>   | <b>\$ 46,936</b>                        | <b>\$ 595,582</b>        |
| <b>Fund Balance - January 1</b>           | <b>4,888,019</b>    | <b>(247,166)</b>      | <b>1,370,426</b>    | <b>672,135</b>                          | <b>6,683,414</b>         |
| <b>Increase (decrease) in inventories</b> | <b>-</b>            | <b>(39,703)</b>       | <b>-</b>            | <b>-</b>                                | <b>(39,703)</b>          |
| <b>Fund Balance - December 31</b>         | <b>\$ 4,951,677</b> | <b>\$ 18,772</b>      | <b>\$ 1,549,773</b> | <b>\$ 719,071</b>                       | <b>\$ 7,239,293</b>      |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 595,582**

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

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

|  |    |             |           |
|--|----|-------------|-----------|
| Expenditures for general capital assets and infrastructure | \$ | 2,971,352   |           |
| Current year depreciation                                  |    | (1,531,846) |           |
| Net book value of assets disposed                          |    | 257,313     | 1,696,819 |

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

|   |  |  |           |
|---|--|--|-----------|
| Change in deferred inflows of resources |  |  | (446,557) |
|---|--|--|-----------|

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

|                                |    |          |          |
|--------------------------------|----|----------|----------|
| Change in                      |    |          |          |
| Compensated absences payable   | \$ | (52,187) |          |
| Inventories                    |    | (39,703) |          |
| Other post-employment benefits |    | 76,553   | (15,337) |

Net pension liability does not represent the impending use of current resources.  
Therefore, the change in the liability and the related deferral of resources are not  
reported in the governmental funds.

|  |  |  |          |
|--|--|--|----------|
|  |  |  | (72,615) |
|--|--|--|----------|

**Change in net position of governmental activities (Exhibit 2) \$ 1,757,892**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 7**

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2015**

|   | <b>Mar-Kit Landfill<br/>Investment<br/>Trust</b> | <b>Agency<br/>(Statement 3)</b> |
|---|--|---------------------------------|
| <b><u>Assets</u></b>                        |  |                                 |
| Cash and pooled investments                 | \$ -   | \$ 2,824,748                    |
| Investments                                 | 600,000  | -                               |
| Accrued interest receivable                 | 166  | -                               |
|   | <b>\$ 600,166</b>                                | <b>\$ 2,824,748</b>             |
| <b><u>Liabilities</u></b>                   |  |                                 |
| Accounts payable                            | \$ -   | \$ 216,798                      |
| Due to other governments                    | 166  | 2,607,950                       |
|   | <b>\$ 166</b>                                    | <b>\$ 2,824,748</b>             |
| <b><u>Net Position</u></b>                  |  |                                 |
| Amounts held in trust for pool participants | <b>\$ 600,000</b>                                |                                 |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 8**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
MAR-KIT LANDFILL INVESTMENT TRUST FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|                                  |                                 |
|----------------------------------|---------------------------------|
| <u><b>Additions</b></u>          |                                 |
| Investment earnings              | \$ 1,250                        |
| <u><b>Deductions</b></u>         |                                 |
| Distributions to participants    | <u>201,250</u>                  |
| <b>Change in net position</b>    | <b>\$ (200,000)</b>             |
| <b>Net Position--January 1</b>   | <u><b>800,000</b></u>           |
| <b>Net Position--December 31</b> | <u><u><b>\$ 600,000</b></u></u> |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

I. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

Kittson County was established March 9, 1878, and is an organized county having the powers, duties, and privileges granted counties by Minnesota Statutes, Chapter 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Kittson County (primary government) and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Administrator, 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 Administrator's Office or the administrative offices of the Rural Water System in Lake Bronson, Minnesota 56734.

Joint Ventures

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

2. Fund Financial Statements

The fund financial statements provide information about the County's funds. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for and reports all financial resources of the general government not accounted for in another fund.

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

Additionally, the County reports the following fund types:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies (Continued)

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Administrator for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2015, based on market prices. Pursuant to Minnesota Statute, § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2015 were \$136,022. Total investment earnings were \$195,012.

2. Receivables and Payables

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

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

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

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

3. Inventories

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

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

4. Restricted Assets

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

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

5. Capital Assets

Capital assets, which include land, construction in progress, infrastructure (e.g., roads, bridges, and similar items), buildings and improvements, and machinery and equipment, are reported in the applicable government-wide financial statements. Capital assets have initial useful lives extending beyond two years and a dollar amount for capitalization per asset of \$25,000, except all land and construction in progress which is capitalized regardless of cost. Capital assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

6. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods, and therefore, will not be recognized as an outflow of resources (expense) until that time. The County reports deferred outflows of resources in the government-wide Statement of Net Position in relation to the activity of the pension funds in which County employees participate.

In addition to liabilities, the Statement of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. The County reports property taxes, special assessments, County State Aid Highway Allotment, and deferred inflows of resources in the governmental fund financial statements. In addition, the County reports deferred inflows of resources in the government-wide Statement of Net Position in relation to the activity of the pension funds in which County employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

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

7. Employee Benefits (Continued)

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

The County uses the alternative method of valuation to determine its Other Post-Employment Benefit liability.

8. Net Position and Fund Balance

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

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

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

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

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

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

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

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

7. Pensions

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

8. Net Position and Fund Balance

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

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The County Board will set aside amounts by resolution as deemed necessary that can only be expended when major flood repairs exist as the need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely. The County did not identify an amount for stabilization as of December 31, 2015.

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

9. Use of Estimates

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

II. Stewardship, Compliance, and Accountability

A. Change in Accounting Principles

During the year ended December 31, 2015, the County adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*, requires governments providing defined pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contributions requirements.

GASB Statement 68 and 71 require the County to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the County's net pension liability and related deferred outflows of resources.

|  | Governmental<br>Activities | Business-Type<br>Activities |
|--|----------------------------|-----------------------------|
| Net position - January 1, 2015, as previously reported | \$ 67,626,754              | \$ 11,803,070               |
| Change in accounting principles                        | (2,756,549)                | (121,605)                   |
| Net position - January 1, 2015, as restated            | \$ 64,870,205              | \$ 11,681,465               |

B. Land Management

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliations of the County’s total deposits and investments to the basic financial statements, as of December 31, 2015, are reported as follows:

|   | Primary<br>Government | Discretely<br>Presented<br>Component Unit |
|---|-----------------------|---|
| Government-wide statement of net position     |                       |   |
| Cash and pooled investments                   | \$ 7,802,020          | \$ 302,394                                |
| Investments                                   | 140,000               | -   |
| Restricted                                    |                       |   |
| Cash and pooled investments                   | -                     | 79,672                                    |
| Investments                                   | -                     | 70,000                                    |
| Pooled investments for asset replacement      | -                     | 1,386,782                                 |
| Statement of fiduciary net position           |                       |   |
| Cash and pooled investments                   | 2,824,748             | -   |
| Investments                                   | 600,000               | -   |
| Total cash and investments                    | <u>\$ 11,366,768</u>  | <u>\$ 1,838,848</u>                       |
| Deposits                                      | \$ 2,273,800          | \$ 382,066                                |
| Cash on hand                                  | 1,800                 | -   |
| Investments                                   | <u>9,091,168</u>      | <u>1,456,782</u>                          |
| Total deposits, cash on hand, and investments | <u>\$ 11,366,768</u>  | <u>\$ 1,838,848</u>                       |

Deposits

Minnesota Statutes, §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board. Minnesota Statute, § 118A.03 requires that all County deposits be covered by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution’s banking day, not covered by insurance or bonds.

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2015, the County’s deposits were not exposed to custodial credit risk. As of December 31, 2015, the discretely presented component unit’s deposits were not exposed to custodial credit risk.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as high risk by Minnesota Statute, § 118A.04, subdivision 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

At December 31, 2015, the County had the following investments and maturities:

|  | Fair Value          | Less Than<br>1 Year | 1-5 Years           | 5+ Years            |
|--|---------------------|---------------------|---------------------|---------------------|
| Federal Home Loan Mortgage Corporation | \$ 447,795          | \$ -                | \$ 447,795          | \$ -                |
| Negotiable Certificates of Deposit     | 4,644,818           | 2,046,009           | 2,251,560           | 347,249             |
| Money Market                           | 1,724,490           | 1,724,490           | -                   | -                   |
| Municipal Bonds                        | 2,341,065           | -                   | 1,374,725           | 966,340             |
| <b>Total Investments</b>               | <b>\$ 9,158,168</b> | <b>\$ 3,770,499</b> | <b>\$ 4,074,080</b> | <b>\$ 1,313,589</b> |
|  | 100%                | 41%                 | 44%                 | 14%                 |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Credit Risk

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

The County's exposure to credit risk as of December 31, 2015, is as follows:

|  | <u>Moody's Rating</u> | <u>Fair Value</u> |
|--|-----------------------|-------------------|
| Municipal Bonds                        | N/A                   | \$ 2,341,065      |
| Federal Home Loan Mortgage Corporation | AAA                   | 447,795           |
| Negotiable Certificates of Deposit     | N/A                   | 4,644,818         |
| Money Market                           | N/A                   | 1,724,490         |
|  |                       | \$ 9,158,168      |

N/R – not rated

N/A – not applicable

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County minimizes custodial credit risk by limiting investments to the types of securities permitted by Minnesota Statute, Chapter 118A and by obtaining broker certification forms and documentation of perfected security interest in pledged, collateral from authorized financial institutions, brokers/dealers, and intermediaries or advisors. Some brokers have excess SIPC coverage which may mitigate all or part of custodial credit risk. At December 31, 2015, the following investments held by the County's agent in the County's name may be subject to custodial credit risk:

|  |              |
|--|--------------|
| Municipal Bonds                        | \$ 1,785,776 |
| Federal Home Loan Mortgage Corporation | 330,905      |
| Money Market                           | 1,490,367    |
| Negotiable CDs                         | 3,954,090    |
|  | \$ 7,561,138 |

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 39 separate financial institutions and are not exposed to concentration of credit risk.



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Concentration of Credit Risk (Continued)

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

| <u>Issuer</u>   | <u>Reported Amount</u> |     |
|-----------------|------------------------|-----|
| Municipal Bonds | \$ 2,341,065           | 26% |
| Money Market    | 1,724,490              | 19% |
| Negotiable CD's | 4,644,818              | 51% |

2. Receivables

Receivables as of December 31, 2015, for the County's governmental activities, including any applicable allowances for uncollectible accounts, are as follows:

|                            | <u>Total Receivables</u> |
|----------------------------|--------------------------|
| Taxes                      | \$ 60,832                |
| Special assessments        | 551                      |
| Accounts                   | 17,062                   |
| Accrued interest           | 93,280                   |
| Due from other governments | 1,014,542                |
| Total                      | <u>\$ 1,186,267</u>      |

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

Receivables as of December 31, 2015, for the discretely presented component unit, including any applicable allowances for uncollectible accounts, are as follows:

|                              | <u>Total Receivables</u> | <u>Amounts Not<br/>Scheduled for<br/>Collection During<br/>the Subsequent Year</u> |
|------------------------------|--------------------------|--|
| Accounts                     | \$ 56,948                | \$ -   |
| Due from other governments   | 307                      | -  |
| Restricted                   |                          |  |
| Accrued interest - temporary | 680                      | -  |
| Special assessments          | 576,529                  | 554,700  |
| Due from other governments   | 451,000                  | 392,000  |
| Surcharge for debt repayment | 6,380                    | -  |
| Total                        | <u>\$ 1,091,844</u>      | <u>\$ 946,700</u>  |

**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, 2015, was as follows:

|   | <u>Beginning<br/>Balance</u> | <u>Increases</u>    | <u>Decreases</u>    | <u>Ending<br/>Balance</u> |
|---|------------------------------|---------------------|---------------------|---------------------------|
| Capital assets, not being depreciated     |                              |                     |                     |                           |
| Land                                      | \$ 190,821                   | \$ -                | \$ -                | \$ 190,821                |
| Construction in progress                  | <u>2,730,471</u>             | <u>1,868,939</u>    | <u>2,397,236</u>    | <u>2,202,174</u>          |
| Total capital assets not depreciated      | <u>\$ 2,921,292</u>          | <u>\$ 1,868,939</u> | <u>\$ 2,397,236</u> | <u>\$ 2,392,995</u>       |
| Capital assets being depreciated          |                              |                     |                     |                           |
| Infrastructure                            | \$ 74,473,047                | \$ 3,019,957        | \$ -                | \$ 77,493,004             |
| Buildings and improvements                | 3,525,493                    | 38,523              | -                   | 3,564,016                 |
| Machinery and equipment                   | <u>4,456,317</u>             | <u>441,169</u>      | <u>130,219</u>      | <u>4,767,267</u>          |
| Total capital assets being depreciated    | <u>\$ 82,454,857</u>         | <u>\$ 3,499,649</u> | <u>\$ 130,219</u>   | <u>\$ 85,824,287</u>      |
| Less: accumulated depreciation for        |                              |                     |                     |                           |
| Infrastructure                            | \$ 20,605,706                | \$ 1,249,167        | \$ -                | \$ 21,854,873             |
| Buildings and improvements                | 2,023,169                    | 77,115              | -                   | 2,100,284                 |
| Machinery and equipment                   | <u>3,411,536</u>             | <u>205,564</u>      | <u>387,532</u>      | <u>3,229,568</u>          |
| Total accumulated depreciation            | <u>\$ 26,040,411</u>         | <u>\$ 1,531,846</u> | <u>\$ 387,532</u>   | <u>\$ 27,184,725</u>      |
| Total capital assets, depreciated, net    | <u>\$ 56,414,446</u>         | <u>\$ 1,967,803</u> | <u>\$ (257,313)</u> | <u>\$ 58,639,562</u>      |
| Primary Government<br>Capital Assets, Net | <u>\$ 59,335,738</u>         | <u>\$ 3,836,742</u> | <u>\$ 2,139,923</u> | <u>\$ 61,032,557</u>      |

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

|   |                     |
|---|---------------------|
| General government  | \$ 63,945           |
| Public safety   | 9,231               |
| Highways and streets, including depreciation of infrastructure assets | 1,455,394           |
| Human services  | <u>3,276</u>        |
| Total Depreciation Expense  | <u>\$ 1,531,846</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, 2015 was as follows:

|  | Beginning<br>Balance | Increases    | Decreases | Ending<br>Balance |
|--|----------------------|--------------|-----------|-------------------|
| Capital assets, not being depreciated  |                      |              |           |                   |
| Land                                   | \$ 108,045           | \$ -         | \$ -      | \$ 108,045        |
| Capital assets being depreciated       |                      |              |           |                   |
| Distribution system                    | \$ 10,023,142        | \$ -         | \$ -      | \$ 10,023,142     |
| Buildings and pumps                    | 4,127,714            | -            | -         | 4,127,714         |
| Machinery and equipment                | 214,776              | -            | -         | 214,776           |
| Tower reconditioning                   | 304,690              | -            | -         | 304,690           |
| Total capital assets being depreciated | \$ 14,670,322        | \$ -         | \$ -      | \$ 14,670,322     |
| Less: accumulated depreciation for     |                      |              |           |                   |
| Distribution system                    | \$ 2,997,752         | \$ 116,371   | \$ -      | \$ 3,114,123      |
| Buildings and pumps                    | 1,547,944            | 109,930      | -         | 1,657,874         |
| Machinery and equipment                | 152,594              | 9,248        | -         | 161,842           |
| Tower reconditioning                   | 110,412              | 15,234       | -         | 125,646           |
| Total accumulated depreciation         | \$ 4,808,702         | \$ 250,783   | \$ -      | \$ 5,059,485      |
| Total capital assets, depreciated, net | \$ 9,861,620         | \$ (250,783) | \$ -      | \$ 9,610,837      |
| Component Unit                         |                      |              |           |                   |
| Capital Assets, Net                    | \$ 9,969,665         | \$ (250,783) | \$ -      | \$ 9,718,882      |

\$250,783 of depreciation expense was charged to the functions of the Rural Water System.

Construction Contracts

The County has one active construction contract as of December 31, 2015. The contract includes the following:

|                         | Spent-to-Date | Remaining<br>Contracts |
|-------------------------|---------------|------------------------|
| Governmental activities |               |                        |
| Highways and streets    | \$ -          | \$ 1,328,537           |

Construction contracts 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, 2015, is as follows:

Due To/From Other Funds

| <u>Receivable Fund</u>               | <u>Payable Fund</u>                  | <u>Amount</u>          |                      |
|--------------------------------------|--------------------------------------|------------------------|----------------------|
| General Fund                         | Social Services Special Revenue Fund | \$ 182                 | Charges for services |
| Road and Bridge Special Revenue Fund | Other Governmental                   | <u>\$ 4,546</u>        | Charges for services |
| Total Due To/From Other Funds        |                                      | <u><u>\$ 4,728</u></u> |                      |

Advances From/To Other Funds

| <u>Receivable Fund</u>             | <u>Payable Fund</u>        | <u>Amount</u>           |                    |
|------------------------------------|----------------------------|-------------------------|--------------------|
| General Fund                       | Ditch Special Revenue Fund | \$ 19,100               | Operating transfer |
| General Fund                       | Other Governmental         | <u>46,143</u>           | Operating transfer |
| Total Advances From/To Other Funds |                            | <u><u>\$ 65,243</u></u> |                    |

These advances will be paid back as funds become available.

C. Liabilities

Compensated Absences

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

Unused compensatory time, accumulated vacation and vested sick leave are paid to employees upon termination. Unvested sick leave, approximately \$383,997 at December 31, 2015, is available to employees in the event of illness-related absences and is not paid to them at termination.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities (Continued)

Changes in Long-Term Liabilities

Long-term liability for activity for the governmental activities for the year ended December 31, 2015, was as follows:

|                       | Beginning<br>Balance | Additions         | Reductions        | Ending<br>Balance | Due Within<br>One Year |
|-----------------------|----------------------|-------------------|-------------------|-------------------|------------------------|
| Net OPEB Payable      | \$ 168,233           | \$ -              | \$ 76,553         | \$ 91,680         | \$ -                   |
| Compensated Absences  | 418,673              | 344,617           | 292,430           | 470,860           | 169,282                |
| Net Pension Liability | -                    | 2,894,732         | -                 | 2,894,732         | -                      |
| Long-Term Liabilities | <u>\$ 586,906</u>    | <u>\$ 344,617</u> | <u>\$ 368,983</u> | <u>\$ 562,540</u> | <u>\$ 169,282</u>      |

Long-Term Debt – Discretely Presented Component Unit

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

\$945,000 General Obligation Water Revenue Crossover Refunding Bonds, Series 2011A – dated August 18, 2011 due in installments of \$85,000 to \$105,000 through January 1, 2023, with a net interest rate of 2.666 percent. This debt was to refund the General Obligation Rural Water System Revenue Refunding Bonds of 2004 on the January 1, 2013 crossover date. The Water System reduced its total debt service payments by \$50,013 and realized an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$42,195. The new bonds were issued with a discount of \$5,658 and net issue costs of \$14,700. This debt is reported net of unamortized bond discount of \$3,602.

\$ 681,398

\$425,000 General Obligation Refunding Bonds of 2009 – dated July 1, 2009 due in installments of \$55,000 to \$65,000 through 2016, with net interest rate of 2.666 percent. This debt was to refund general obligation refunding bonds dated September 1, 1998 which were scheduled to mature January 1, 2017. The new bonds were issued with a discount of \$7,841 and net issue costs of \$6,230. As a result of the advanced refunding, the Water System realized an economic gain of \$24,268 with a present value of \$25,986. This debt is reported net of unamortized bond discount of \$1,120.

63,880

Total Payable from North Kittson Rural Water System Component Unit

\$ 745,278

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

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

Debt Service Requirements

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

| Year Ending<br>December 31 | General Obligation Water System<br>Revenue Crossover Refunding<br>Bonds, Series 2011A |           | General Obligation<br>Refunding Bonds of 2009 |          | Total      |           |
|----------------------------|---|-----------|---|----------|------------|-----------|
|                            | Principal   | Interest  | Principal                                     | Interest | Principal  | Interest  |
| 2016                       | \$ 90,000   | \$ 18,533 | \$ 65,000                                     | \$ 2,047 | \$ 155,000 | \$ 20,580 |
| 2017                       | 95,000  | 16,507    | -   | -        | 95,000     | 16,507    |
| 2018                       | 95,000  | 14,134    | -   | -        | 95,000     | 14,134    |
| 2019                       | 100,000   | 11,758    | -   | -        | 100,000    | 11,758    |
| 2020                       | 100,000   | 9,106     | -   | -        | 100,000    | 9,106     |
| 2021-2022                  | 205,000   | 9,614     | -   | -        | 205,000    | 9,614     |
|                            | \$ 685,000  | \$ 79,652 | \$ 65,000                                     | \$ 2,047 | \$ 750,000 | \$ 81,699 |
| Less: Bond discount        | (3,602)   | -         | (1,120)                                       | -        | (4,722)    | -         |
| Total                      | \$ 681,398  | \$ 79,652 | \$ 63,880                                     | \$ 2,047 | \$ 745,278 | \$ 81,699 |

Changes in Long-Term Liabilities

Long-term liability activity for the discretely presented component unit for the year ended December 31, 2015, was as follows:

|   | Beginning<br>Balance | Additions | Reductions | Ending<br>Balance | Due Within<br>One Year |
|---|----------------------|-----------|------------|-------------------|------------------------|
| G.O. Refunding Bonds  | \$ 120,000           | \$ -      | \$ 55,000  | \$ 65,000         | \$ 65,000              |
| G.O. Water Revenue Crossover<br>Refunding Bonds, Series 2011A | 775,000              | -         | 90,000     | 685,000           | 90,000                 |
| Less: Bond discounts  | (6,356)              | -         | (1,634)    | (4,722)           | -                      |
| Compensated Absences  | 36,759               | 24,502    | 18,708     | 42,553            | 12,145                 |
| Net pension liability   | 126,832              | 8,381     | -          | 135,213           | -                      |
| Long-Term Liabilities   | \$ 1,052,235         | \$ 32,883 | \$ 162,074 | \$ 923,044        | \$ 167,145             |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds (Continued)

D. Fund Balances

Fund balances at year-end December 31, 2015, were as follows:

|                                     | General      | Road and<br>Bridge | Social<br>Services | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|-------------------------------------|--------------|--------------------|--------------------|--------------------------------|--------------------------------|
| Nonspendable                        |              |                    |                    |                                |                                |
| Inventories                         | \$ -         | \$ 288,964         | \$ -               | \$ -                           | \$ 288,964                     |
| Restricted for                      |              |                    |                    |                                |                                |
| Conservation of natural resources   | \$ -         | \$ -               | \$ -               | \$ 484,341                     | \$ 484,341                     |
| Corrections supervision             | 7,075        | -                  | -                  | -                              | 7,075                          |
| DWI assessment                      | 5,495        | -                  | -                  | -                              | 5,495                          |
| Enhanced 911                        | 392,068      | -                  | -                  | -                              | 392,068                        |
| Handgun permits                     | 13,467       | -                  | -                  | -                              | 13,467                         |
| Help America Vote Act               | 124,457      | -                  | -                  | -                              | 124,457                        |
| Missing heirs                       | 9,281        | -                  | -                  | -                              | 9,281                          |
| Pit restoration                     | -            | 113,512            | -                  | -                              | 113,512                        |
| Probation                           | 1,640        | -                  | -                  | -                              | 1,640                          |
| Recorder's equipment                | 93,185       | -                  | -                  | -                              | 93,185                         |
| Sheriff's contingent fund           | 1,690        | -                  | -                  | -                              | 1,690                          |
| Technology                          | 121,214      | -                  | -                  | -                              | 121,214                        |
| Vehicle seizures                    | 1,396        | -                  | -                  | -                              | 1,396                          |
| Victim assistance                   | 2,997        | -                  | -                  | -                              | 2,997                          |
| Water planning                      | 6,544        | -                  | -                  | -                              | 6,544                          |
| Total restricted                    | \$ 780,509   | \$ 113,512         | \$ -               | \$ 484,341                     | \$ 1,378,362                   |
| Committed to                        |              |                    |                    |                                |                                |
| Buildings                           | \$ 749,520   | \$ -               | \$ 200,000         | \$ -                           | \$ 949,520                     |
| Capital purchases                   | 150,000      | -                  | 30,000             | -                              | 180,000                        |
| Data processing                     | 227,490      | -                  | 100,000            | -                              | 327,490                        |
| Enhanced 911 road signs             | 179,049      | -                  | -                  | -                              | 179,049                        |
| Geographic Information System       | 128,354      | -                  | -                  | -                              | 128,354                        |
| Insurance                           | 600,000      | -                  | -                  | -                              | 600,000                        |
| Local Emergency Planning Commission | 6,159        | -                  | -                  | -                              | 6,159                          |
| Total committed                     | \$ 2,040,572 | \$ -               | \$ 330,000         | \$ -                           | \$ 2,370,572                   |
| Assigned to                         |              |                    |                    |                                |                                |
| Insurance                           | \$ -         | \$ -               | \$ -               | \$ 57,664                      | \$ 57,664                      |
| Social Services                     | -            | -                  | 1,219,773          | -                              | 1,219,773                      |
| Unorganized townships               | -            | -                  | -                  | 223,325                        | 223,325                        |
| Total assigned                      | \$ -         | \$ -               | \$ 1,219,773       | \$ 280,989                     | \$ 1,500,762                   |
| Unassigned                          | \$ 2,130,596 | \$ (383,704)       | \$ -               | \$ (46,259)                    | \$ 1,700,633                   |
| Total Fund Balances                 | \$ 4,951,677 | \$ 18,772          | \$ 1,549,773       | \$ 719,071                     | \$ 7,239,293                   |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Other Post-Employment Benefits (OPEB)

Plan Description

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

Funding Policy

The contribution requirements of the plan and the County are established and may be amended by the Kittson County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This post-employment benefit is funded on a pay-as-you-go basis usually paying retiree benefits out of the General Fund. For 2015, there were approximately 58 participants in the plan, with 4 retirees.

Annual OPEB Cost and Net OPEB Obligation

The County's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (ARC). The County has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the retiree health plan.

|   |    |                      |
|---|----|----------------------|
| Annual Required Contribution                | \$ | (35,606)             |
| Interest on net OPEB obligation             |    | 1,835                |
| Adjustments to Annual Required Contribution |    | <u>(41,285)</u>      |
| <br>  |    |                      |
| Annual OPEB cost (expense)                  | \$ | (75,056)             |
| Contributions made                          |    | <u>(1,497)</u>       |
| <br>  |    |                      |
| Increase in net OPEB obligation             | \$ | (76,553)             |
| Net OPEB Obligation - January 1, 2015       |    | <u>168,233</u>       |
| <br>  |    |                      |
| Net OPEB Obligation - December 31, 2015     | \$ | <u><u>91,680</u></u> |

The County's annual OPEB cost for December 31, 2015, was \$(75,056). The percentage of annual OPEB cost contributed to the plan was (2) percent, and the net OPEB obligation for 2015 was \$91,680. For the required three-year trend information, refer to the Required Supplementary Information.



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Other Post-Employment Benefits (OPEB) (Continued)

Fund Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the plan was zero percent funded. There was no actuarial liability for benefits in 2015 and the actuarial value of assets was zero. The covered payroll (annual payroll of active employees covered by the plan) was \$3,096,721.

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

Methods and Assumptions

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

The following simplifying assumptions were made:

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

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

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

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

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Other Post-Employment Benefits (OPEB)

Methods and Assumptions (Continued)

*Health insurance premiums* – 2015 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits paid.

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

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

Based on the historical and expected returns of the County’s short-term investment portfolio, a discount rate of 1.49 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2015, was twenty-two years.

V. Defined Benefit Pension Plans

A. Plan Description

Kittson County participated in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA’s defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA’s defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of Kittson County are covered by the General Employees Retirement Fund (GERF). GERF 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. The Basic Plan was closed to new members in 1967. All new members must participated in the Coordinated Plan, for which benefits vest after five years of credited service.

2. Public Employees Police and Fire Fund (PEPFF)

The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

3. Public Employees Correctional Fund (PECF)

The Local Government Correctional Fund, referred to as the Public Employees Correctional Fund (PECF), was established for correctional officers serving in county and regional corrections facilities. Eligible participants must be responsible for the security, custody, and control of the facilities and their inmates.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans

A. Plan Description (Continued)

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's 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% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

2. PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

3. PECF Benefits

Benefits for PECF members first hired after June 30, 2010, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. The annuity accrual rate is 1.9% of average salary for each year of service in that plan. For PECF members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans (Continued)

B. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. Kittson County was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. Kittson County's contributions to the GERF for the year ended December 31, 2015, were \$206,556. Kittson County's contributions were equal to the required contributions as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. Kittson County was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. Kittson County's contributions to the PEPFF for the year ended December 31, 2015, were \$60,843. Kittson County's contributions were equal to the required contributions as set by state statute.

3. PECF Contributions

In calendar year 2015 plan members were required to contribute 5.83% of their annual covered salary. The County was required to contribute 8.75% of pay for PECF members in calendar year 2015. The County's contributions to the PECF for the year ended December 31, 2015, were \$23,478. The County's contributions were equal to the required contributions as set by state statute.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans (Continued)

C. Pension Costs

1. GERF Pension Costs

At December 31, 2015, Kittson County reported a liability of \$2,394,324 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuations as of that date. Kittson County's proportion of the net pension liability was based on Kittson County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all PERA's participating employers. At June 30, 2015, Kittson County's proportion share was .0462% which was a decrease of -.0043% from its proportion measured as of June 30, 2014.

There were no provision changes during the measurement period.

For the year ended December 31, 2015, Kittson County recognized pension expense of \$268,659 for its proportionate share of the GERF's pension expense.

At December 31, 2015, Kittson County reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| Differences between expected and actual economic experience   | \$ -                                      | \$ 120,715                               |
| Difference between projected and actual investment earnings   | 226,660                                   | -  |
| Changes in proportion   | -   | 151,494                                  |
| Contributions paid to PERA subsequent to the measurement date | <u>89,654</u>                             | <u>-</u>                                 |
| Total   | <u>\$ 316,314</u>                         | <u>\$ 272,209</u>                        |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans

C. Pension Costs

1. GERF Pension Costs (Continued)

\$89,654 reported as deferred outflows of resources related to pensions resulting from Kittson County's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31: | Pension Expense Amount |
|-------------------------|------------------------|
| 2016                    | \$ (34,071)            |
| 2017                    | (34,071)               |
| 2018                    | (34,071)               |
| 2019                    | 56,665                 |

2. PEPFF Pension Costs

At December 31, 2015, Kittson County reported a liability of \$477,218 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Kittson County's proportion of the net pension liability was based on Kittson County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all PERA's participating employers. At June 30, 2015, Kittson County's proportion was .042% which was a decrease of -.004% from its proportion measured as of June 30, 2014.

There were no provision changes during the measurement period.

For the year ended December 31, 2015, Kittson County recognized pension expense of \$75,036 for its proportionate share of the PEPFF's pension expense.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans

C. Pension Costs

2. PEPFF Pension Costs (Continued)

As of December 31, 2015, Kittson County reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual economic experience   | \$ -                              | \$ 77,389                        |
| Difference between projected and actual investment earnings   | 83,147                            | -                                |
| Changes in proportion   | -                                 | 36,001                           |
| Contributions paid to PERA subsequent to the measurement date | 29,819                            | -                                |
| Total   | \$ 112,966                        | \$ 113,390                       |

\$29,819 reported as deferred outflows of resources related to pensions resulting from Kittson County's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31: | Pension Expense Amount |
|-------------------------|------------------------|
| 2016                    | \$ (1,891)             |
| 2017                    | (1,891)                |
| 2018                    | (1,891)                |
| 2019                    | (1,891)                |
| 2020                    | (22,678)               |

3. PECF Pension Costs

At December 31, 2015, the County reported a liability of \$23,190 for its proportionate share of the PECF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was .150% which is a 0% change from its proportion measured as of June 30, 2014.

There were no provision changes during the measurement period.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans

C. Pension Costs

3. PECF Pension Costs (Continued)

For the year ended December 31, 2015 the County recognized pension expense of \$25,026 for its proportionate share of the PECF's pension expense.

At December 31, 2015, the County reported its proportionate share of the PECF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual economic experience   | \$ -                              | \$ 8,879                         |
| Difference between projected and actual investment earnings   | 19,331                            | -                                |
| Changes in proportion   | -                                 | -                                |
| Contributions paid to PERA subsequent to the measurement date | 11,435                            | -                                |
| Total   | \$ 30,766                         | \$ 8,879                         |

\$11,435 reported as deferred outflows of resources related to pensions resulting from the County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31: | Pension Expense Amount |
|-------------------------|------------------------|
| 2016                    | \$ 1,873               |
| 2017                    | 1,873                  |
| 2018                    | 1,873                  |
| 2019                    | 4,833                  |



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans (Continued)

D. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation determined using the following actuarial assumptions:

|                              |                |
|------------------------------|----------------|
| Inflation                    | 2.75% per year |
| Active Member Payroll Growth | 3.50% per year |
| Investment Rate of Return    | 7.90%          |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males and females, as appropriate, with slight adjustments. For the General Employees Retirement Fund and the Public Employees Police and Fire Fund, cost of living benefit increases for retirees are assumed to be: 1% effective every January 1<sup>st</sup> through 2035 and 2037 respectively, and 2.5% thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for all years for the Public Employees Correctional Fund.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for the Public Employees Police and Fire Fund was for the period July 1, 2004, through June 30, 2009. The experience study for the Public Employees Correctional Fund was for the period July 1, 2006, through June 30, 2011.

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until the June 30, 2016, estimate of pension liability.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class          | Target Allocation | Long-Term Expected Real<br>Rate of Return |
|----------------------|-------------------|---|
| Domestic Stocks      | 45%               | 5.50%                                     |
| International Stocks | 15%               | 6.00%                                     |
| Bonds                | 18%               | 1.45%                                     |
| Alternative Assets   | 20%               | 6.40%                                     |
| Cash                 | 2%                | 0.50%                                     |

**KITTSOON COUNTY  
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V. Defined Benefit Pension Plans (Continued)

E. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed the employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Pension Liability Sensitivity

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

| Kittson County's  | 1% Decrease in Discount<br>Rate (6.9%) | Discount Rate (7.9%) | 1% Increase in Discount<br>Rate (8.9%) |
|---|--|----------------------|--|
| Proportionate share of<br>the GERS net pension liability  | \$ 3,764,728                           | \$ 2,394,324         | \$ 1,262,580                           |
| Proportionate share of<br>the PEPFF net pension liability | \$ 930,103                             | \$ 477,218           | \$ 103,056                             |
| Proportionate share of<br>the PECF net pension liability  | \$ 161,499                             | \$ 23,190            | \$ (87,513)                            |

G. Pension Plan Fiduciary Net Position

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

VI. Defined Contribution Plan

Six employees are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by PERA. The PEDCP 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 Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. Employees who are paid for their services may elect to make member contributions in an amount no to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually.

Total contributions made by Kittson County during fiscal year 2015 were:

| Contribution Amount |          | Percentage of Cover Payroll |          | Required |
|---------------------|----------|-----------------------------|----------|----------|
| Employee            | Employer | Employee                    | Employer | Rate     |
| \$ 7,093            | \$ 7,093 | 5%                          | 5%       | 5%       |

VI. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. 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.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

B. Risk Management (Continued)

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 \$490,000 per claim in 2015 and \$500,000 per claim in 2016. 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.

C. 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, Kittson, 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. So that no member county experiences a financial benefit or burden. Complete financial information can be obtained from the Clay County Sheriff's Office, 915 9<sup>th</sup> Avenue North, Moorhead, Minnesota 56560.

Karlstad Mobile Relay Station

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

Control of the Karlstad Mobile Relay Station is vested in an advisory board which is composed of one representative appointed by each county board and the Kittson County Administrator or Deputy

**KITTSON COUNTY  
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VI. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Karlstad Mobile Relay Station (Continued)

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, 2015. Complete financial information can be obtained from the Kittson County Administrator's Office, P.O. Box 848, Hallock, Minnesota 56728.

Mar-Kit Landfill

The Mar-Kit Landfill was established in 1991 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Kittson and Marshall Counties. The purpose of the Landfill is to allow for the purchase, lease, development, operation, and/or management of a sanitary landfill and/or processing facility to provide for the disposition of solid waste materials. The facility is located in Hallock, Minnesota, with administrative duties performed by the Kittson County Administrator'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 so that no member experiences a financial benefit or burden.

Mar-Kit Landfill's has not debt. Financing is provided by charges for services and appropriations from member counties. Kittson County contributed \$25,000 for recycling to the Landfill and received a profit sharing distribution of \$141,000 in 2015. 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 Administrator's Office, P.O. Box 848, Hallock, Minnesota 56728.

Northwest Emergency Communications Board

The Northwest Emergency Communications 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, Kittson, Clay, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau counties and the City of Moorhead. The purpose of the Northwest Emergency Communications 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).

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northwest Emergency Communications Board (Continued)

Control is vested in the Northwest Emergency Communications 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 Emergency Communications Board's Joint Powers Agreement.

The Northwest Emergency Communications Board has no long-term debt. Financing is provided by annual contributions from members, reflective of the extent of participation and use of services so that no member experiences a financial benefit or burden. Kittson County did not contribute to the Northwest Emergency Communications Board for the year ended December 31, 2015. Complete financial information can be obtained from Headwaters Regional Development Commission, P.O. Box 906, Bemidji, Minnesota 56619.

Northwest Service Cooperative

The Northwest Service Cooperative (NWSC) was established in February, 1977, pursuant to Minnesota Statutes, §§ 471.59 and 123.582. The NWSC is located in State Development Regions One and Two which includes 12 counties covering a total of 14,853 miles. These are the most sparsely populated regions of the state with only 11 persons per square mile. The regions are known as "Pine to Prairie." The NWSC provides service to all school districts, and many cities, counties, and other governmental agencies in the northwest region. The Northwest Service Cooperative's purpose is to meet or exceed the needs of participating members by developing and delivering high quality, cost-effective services and programs that will support the activities of its members. The NWSC charges sufficient rates so that the participating members experience no financial benefit or burden.

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, Kittson, Hubbard, Kittson, Lake of the Woods, Mahnomon, 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

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northwestern Counties Data Processing Security Association (Continued)

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, 2015. Clearwater 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 Clearwater Auditor/Treasurer's Office, 212 Main Ave N. Bagley, MN 56621.

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, Kittson, 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 \$4,466 to the Waste Management Group for the year ended December 31, 2015. 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/Treasurer's Office or the Waste Management Group's office, 212 Main Ave N., 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, Kittson, Hubbard, Kittson, Lake of the Woods, Pennington, and Roseau Counties. The purpose of the Center is to provide rehabilitation and other services to juveniles

**KITTSON COUNTY  
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VI. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northwestern Minnesota Juvenile Center (Continued)

under the jurisdiction of the court system. The offices of the Center are located in Bemidji, with satellite homes at various locations.

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

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

Quin County Community Health Service

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

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

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.



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VI. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Williams Mobile Relay Station (Continued)

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

The Williams Mobile Relay Station has no long-term debt. Financing is provided by contributions from each member county representing an equal share of annual expense. The County did not make a contribution to the Williams Mobile Relay Station in 2015. Complete financial information can be obtained from the Lake of the Woods County Auditor's Office, P.O. Box 808, Baudette, Minnesota 56623.

D. 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.

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.

E. Jointly-Governed Organizations

Job Training Partnership Act Joint Powers Agreement

The Job Training Partnership Act Joint Powers Agreement was formed in July 1994 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Kittson, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Joint Powers Agreement is to designate the members of the Northwest Regional

**KITTSON COUNTY  
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VI. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations

Job Training Partnership Act Joint Powers Agreement (Continued)

Development Commission's Board of Directors as the local elected officials to work with the Northwest Private Industry Council for the Northwest Service Delivery Area, including specific duties as listed in the Joint Powers Agreement.

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

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

Kittson County Children's Collaborative

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

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

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

Financing is provided by state grants and appropriations from its members. Kittson County Social Services, in an agent capacity, reports the cash transactions of the Kittson County Children's Collaborative as an agency fund on the County's financial statements. During 2015, the County did not contribute to the Collaborative.

Kittson Economic Development Authority

The Kittson EDA was established in year 2002 pursuant to Minnesota Statutes. The purpose of the EDA is to promote economic development in Kittson County, which is accomplished by the establishment of a revolving loan pool.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations

Kittson Economic Development Authority (Continued)

Control of the Kittson EDA is vested in a governing board. The board consists of two County board members and four other members from various parts of the County.

Financing is provided by revolving loans. Kittson County, in an agent capacity, reports the cash transactions of the Kittson EDA as an agency fund on the County's financial statements. During 2015, the County contributed \$10,000 to help fund the operation of the EDA.

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

Northwest Minnesota Council of Collaboratives

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

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

Financing is provided by the collection of membership dues from the participating collaboratives and agency partners. Tri-County Community Corrections acts as fiscal agent for the Northwest Minnesota Council of Collaboratives and reports the cash transactions of the Council of Collaboratives as an agency fund in its financial statements. During 2015, Kittson County did not contribute to the Council of Collaboratives.

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

**KITTSON COUNTY  
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VI. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Northwest Minnesota Multi-County Housing and Redevelopment Authority

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

Northwest Regional Library

The Northwest Regional Library was formed pursuant to Minnesota Statute, §§ 134.20 and 471.59, effective January 1, 1981, and includes Kittson, Marshall, Pennington, Red Lake, and Roseau Counties. Control of the Library is vested in the Northwest Regional Library Board which is composed of 16 members with staggered terms made up of the following: one member appointed by each board of county commissioners who may be a member of the Board of Commissioners, one member appointed by each participating city, and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. Kittson County appropriated \$60,000 to the Library for the year ended December 31, 2015.

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.

**KITTSOON COUNTY  
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VI. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Roseau River Watershed District

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|                                 | Budgeted Amounts    |                     | Actual<br>Amounts   | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---------------------------------|---------------------|---------------------|---------------------|---|
|                                 | Original            | Final               |                     |   |
| <b>Revenues</b>                 |                     |                     |                     |   |
| Taxes                           | \$ 2,100            | \$ 2,253,236        | \$ 2,158,818        | \$ (94,418)   |
| Licenses and permits            | 7,750               | 7,750               | 9,673               | 1,923   |
| Intergovernmental               | 850,978             | 850,978             | 812,761             | (38,217)  |
| Charges for services            | 123,548             | 123,548             | 127,123             | 3,575   |
| Fines and forfeitures           | 5,000               | 5,000               | 3,950               | (1,050)   |
| Investment earnings             | 50,650              | 50,650              | 192,005             | 141,355   |
| Miscellaneous                   | 177,315             | 177,315             | 236,230             | 58,915  |
| <b>Total Revenues</b>           | <b>\$ 1,217,341</b> | <b>\$ 3,468,477</b> | <b>\$ 3,540,560</b> | <b>\$ 72,083</b>  |
| <b>Expenditures</b>             |                     |                     |                     |   |
| <b>Current</b>                  |                     |                     |                     |   |
| <b>General government</b>       |                     |                     |                     |   |
| Commissioners                   | \$ 191,948          | \$ 191,948          | \$ 174,754          | \$ 17,194   |
| District court                  | 15,300              | 15,300              | 30,195              | (14,895)  |
| Law library                     | 6,500               | 6,500               | 8,397               | (1,897)   |
| County administration           | 408,431             | 408,431             | 407,869             | 562   |
| County assessor                 | 291,682             | 291,682             | 290,723             | 959   |
| Elections                       | 5,500               | 5,500               | 3,352               | 2,148   |
| Professional services           | 19,050              | 19,050              | 15,360              | 3,690   |
| Data processing                 | 185,000             | 185,000             | 112,157             | 72,843  |
| Attorney                        | 97,265              | 97,265              | 90,362              | 6,903   |
| Recorder                        | 144,428             | 144,428             | 145,273             | (845)   |
| Planning and zoning             | 33,954              | 33,954              | 25,445              | 8,509   |
| Surveyor                        | 2,000               | 2,000               | 3,137               | (1,137)   |
| Buildings and grounds           | 217,789             | 217,789             | 219,652             | (1,863)   |
| GIS/LIS                         | 5,000               | 5,000               | 3,574               | 1,426   |
| Veterans service officer        | 31,717              | 31,717              | 40,135              | (8,418)   |
| Insurance                       | 46,725              | 46,725              | 48,805              | (2,080)   |
| Other general government        | 52,030              | 52,030              | 49,222              | 2,808   |
| <b>Total general government</b> | <b>\$ 1,754,319</b> | <b>\$ 1,754,319</b> | <b>\$ 1,668,412</b> | <b>\$ 85,907</b>  |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 1  
(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|                                     | Budgeted Amounts    |                     | Actual<br>Amounts   | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|-------------------------------------|---------------------|---------------------|---------------------|---|
|                                     | Original            | Final               |                     |   |
| <b>Expenditures</b>                 |                     |                     |                     |   |
| <b>Current (Continued)</b>          |                     |                     |                     |   |
| <b>Public safety</b>                |                     |                     |                     |   |
| Sheriff                             | \$ 748,530          | \$ 748,530          | \$ 760,931          | \$ (12,401)   |
| Boat and water safety               | 500                 | 500                 | -                   | 500   |
| Community corrections               | 226,338             | 226,338             | 209,469             | 16,869  |
| Coroner                             | 9,104               | 9,104               | 9,104               | -   |
| Enhanced 911                        | 54,600              | 54,600              | 45,213              | 9,387   |
| Emergency management                | 46,659              | 46,659              | 50,390              | (3,731)   |
| Fire protection                     | 500                 | 500                 | 500                 | -   |
| Local Emergency Planning Commission | 1,000               | 1,000               | 917                 | 83  |
| Operation Stonegarden               | 97,547              | 97,547              | 27,038              | 70,509  |
| Probation and parole                | 30,000              | 30,000              | 29,850              | 150   |
| Safety committee                    | 5,580               | 5,580               | 4,425               | 1,155   |
| Transmission tower                  | 7,500               | 7,500               | 3,608               | 3,892   |
| Victim assistance                   | -                   | -                   | 53                  | (53)  |
| Other public safety                 | 5,000               | 5,000               | -                   | 5,000   |
| <b>Total public safety</b>          | <b>\$ 1,232,858</b> | <b>\$ 1,232,858</b> | <b>\$ 1,141,498</b> | <b>\$ 91,360</b>  |
| <b>Sanitation</b>                   |                     |                     |                     |   |
| Recycling                           | \$ 65,835           | \$ 65,835           | \$ 65,807           | \$ 28   |
| Solid waste                         | 8,535               | 8,535               | 7,312               | 1,223   |
| <b>Total sanitation</b>             | <b>\$ 74,370</b>    | <b>\$ 74,370</b>    | <b>\$ 73,119</b>    | <b>\$ 1,251</b>   |
| <b>Health</b>                       |                     |                     |                     |   |
| Ambulance                           | \$ 27,312           | \$ 27,312           | \$ 27,312           | \$ -  |
| Hospice                             | 7,500               | 7,500               | 7,500               | -   |
| Kittson wellness                    | 1,450               | 1,450               | 1,308               | 142   |
| <b>Total health</b>                 | <b>\$ 36,262</b>    | <b>\$ 36,262</b>    | <b>\$ 36,120</b>    | <b>\$ 142</b>   |
| <b>Culture and recreation</b>       |                     |                     |                     |   |
| Historical society                  | \$ 56,540           | \$ 56,540           | \$ 56,540           | \$ -  |
| Regional library                    | 63,000              | 63,000              | 63,000              | -   |
| Snowmobile and ski trails           | -                   | -                   | 103,017             | (103,017)   |
| Veterans organizations              | 500                 | 500                 | 500                 | -   |
| <b>Total culture and recreation</b> | <b>\$ 120,040</b>   | <b>\$ 120,040</b>   | <b>\$ 223,057</b>   | <b>\$ (103,017)</b>                                     |



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 1  
(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|  | Budgeted Amounts      |                     | Actual<br>Amounts   | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|-----------------------|---------------------|---------------------|---|
|  | Original              | Final               |                     |   |
| <b>Expenditures</b>                                |                       |                     |                     |   |
| <b>Current (Continued)</b>                         |                       |                     |                     |   |
| <b>Conservation of natural resources</b>           |                       |                     |                     |   |
| Agricultural inspection                            | \$ 10,300             | \$ 10,300           | \$ 10,300           | \$ -  |
| Agricultural society                               | 22,500                | 22,500              | 22,500              | -   |
| Aquatic Invasive Species                           | -                     | -                   | 9,861               | (9,861)   |
| County extension                                   | 108,117               | 108,117             | 105,777             | 2,340   |
| Predator and weed control                          | 3,200                 | 3,200               | 2,813               | 387   |
| Soil and water conservation                        | 47,247                | 47,247              | 42,454              | 4,793   |
| Water planning                                     | 61,520                | 61,520              | 38,417              | 23,103  |
| <b>Total conservation of<br/>natural resources</b> | <b>\$ 252,884</b>     | <b>\$ 252,884</b>   | <b>\$ 232,122</b>   | <b>\$ 20,762</b>  |
| <b>Economic development</b>                        |                       |                     |                     |   |
| Kittson Office of Economic Development             | \$ 10,000             | \$ 10,000           | \$ 10,000           | \$ -  |
| MN Red River Valley Development Authority          | -                     | -                   | 800                 | (800)   |
| Tax abatement                                      | 120,000               | 120,000             | -                   | 120,000   |
| Other economic development                         | -                     | -                   | 1,000               | (1,000)   |
| <b>Total economic development</b>                  | <b>\$ 130,000</b>     | <b>\$ 130,000</b>   | <b>\$ 11,800</b>    | <b>\$ 118,200</b>                                       |
| <b>Total Current</b>                               | <b>\$ 3,600,733</b>   | <b>\$ 3,600,733</b> | <b>\$ 3,386,128</b> | <b>\$ 214,605</b>                                       |
| <b>Capital outlay</b>                              |                       |                     |                     |   |
| General government                                 | \$ -                  | \$ -                | \$ 19,884           | \$ (19,884)   |
| Public safety                                      | 55,000                | 93,523              | 70,890              | 22,633  |
| <b>Total capital outlay</b>                        | <b>\$ 55,000</b>      | <b>\$ 93,523</b>    | <b>\$ 90,774</b>    | <b>\$ 2,749</b>   |
| <b>Total Expenditures</b>                          | <b>\$ 3,655,733</b>   | <b>\$ 3,694,256</b> | <b>\$ 3,476,902</b> | <b>\$ 217,354</b>                                       |
| <b>Net Change in Fund Balance</b>                  | <b>\$ (2,438,392)</b> | <b>\$ (225,779)</b> | <b>\$ 63,658</b>    | <b>\$ 289,437</b>                                       |
| <b>Fund Balance - January 1</b>                    | <b>4,888,019</b>      | <b>4,888,019</b>    | <b>4,888,019</b>    | <b>-</b>  |
| <b>Fund Balance - December 31</b>                  | <b>\$ 2,449,627</b>   | <b>\$ 4,662,240</b> | <b>\$ 4,951,677</b> | <b>\$ 289,437</b>                                       |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|   | Budgeted Amounts    |                     | Actual<br>Amounts   | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|---------------------|---------------------|---------------------|---|
|   | Original            | Final               |                     |   |
| <b>Revenues</b>                           |                     |                     |                     |   |
| Taxes                                     | \$ 23,508           | \$ 715,482          | \$ 692,123          | \$ (23,359)   |
| Intergovernmental                         | 5,239,567           | 5,239,567           | 4,489,107           | (750,460)   |
| Charges for services                      | 596,000             | 596,000             | 522,421             | (73,579)  |
| Miscellaneous                             | 33,575              | 33,575              | 59,981              | 26,406  |
| <b>Total Revenues</b>                     | <b>\$ 5,892,650</b> | <b>\$ 6,584,624</b> | <b>\$ 5,763,632</b> | <b>\$ (820,992)</b>                                     |
| <b>Expenditures</b>                       |                     |                     |                     |   |
| <b>Current</b>                            |                     |                     |                     |   |
| <b>Highways and streets</b>               |                     |                     |                     |   |
| Administration                            | \$ 460,158          | \$ 460,158          | \$ 430,835          | \$ 29,323   |
| Engineering                               | 455,590             | 455,590             | 440,812             | 14,778  |
| Maintenance                               | 1,261,174           | 1,261,174           | 1,422,908           | (161,734)   |
| Construction                              | 3,633,973           | 3,633,973           | 1,991,683           | 1,642,290   |
| Equipment maintenance and shop            | 561,729             | 561,729             | 463,967             | 97,762  |
| Township roads                            | -                   | -                   | 502,438             | (502,438)   |
| <b>Total Current</b>                      | <b>\$ 6,372,624</b> | <b>\$ 6,372,624</b> | <b>\$ 5,252,643</b> | <b>\$ 1,119,981</b>                                     |
| <b>Capital outlay</b>                     |                     |                     |                     |   |
| Highways and streets                      | 235,000             | 235,000             | 205,348             | 29,652  |
| <b>Total Expenditures</b>                 | <b>\$ 6,607,624</b> | <b>\$ 6,607,624</b> | <b>\$ 5,457,991</b> | <b>\$ 1,149,633</b>                                     |
| <b>Net Change in Fund Balance</b>         | <b>\$ (714,974)</b> | <b>\$ (23,000)</b>  | <b>\$ 305,641</b>   | <b>\$ 328,641</b>                                       |
| <b>Fund Balance - January 1</b>           | <b>(247,166)</b>    | <b>(247,166)</b>    | <b>(247,166)</b>    | <b>-</b>  |
| <b>Increase (decrease) in inventories</b> | <b>-</b>            | <b>-</b>            | <b>(39,703)</b>     | <b>(39,703)</b>   |
| <b>Fund Balance - December 31</b>         | <b>\$ (962,140)</b> | <b>\$ (270,166)</b> | <b>\$ 18,772</b>    | <b>\$ 288,938</b>                                       |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|   | Budgeted Amounts    |                     | Actual<br>Amounts   | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|---------------------|---------------------|---------------------|---|
|   | Original            | Final               |                     |   |
| <b>Revenues</b>   |                     |                     |                     |   |
| Taxes   | \$ -                | \$ 778,324          | \$ 731,027          | \$ (47,297)   |
| Intergovernmental                                       | 505,496             | 505,496             | 701,592             | 196,096   |
| Charges for services                                    | 70,010              | 70,010              | 85,604              | 15,594  |
| Miscellaneous   | 81,950              | 81,950              | 71,535              | (10,415)  |
| <b>Total Revenues</b>                                   | <b>\$ 657,456</b>   | <b>\$ 1,435,780</b> | <b>\$ 1,589,758</b> | <b>\$ 153,978</b>                                       |
| <b>Expenditures</b>                                     |                     |                     |                     |   |
| <b>Current</b>  |                     |                     |                     |   |
| <b>Human services</b>                                   |                     |                     |                     |   |
| Income maintenance                                      | \$ 475,013          | \$ 475,013          | \$ 533,328          | \$ (58,315)   |
| Social services   | 960,767             | 960,767             | 877,083             | 83,684  |
| <b>Total Expenditures</b>                               | <b>\$ 1,435,780</b> | <b>\$ 1,435,780</b> | <b>\$ 1,410,411</b> | <b>\$ 25,369</b>  |
| <b>Excess of Revenues Over<br/>(Under) Expenditures</b> | <b>\$ (778,324)</b> | <b>\$ -</b>         | <b>\$ 179,347</b>   | <b>\$ 179,347</b>                                       |
| <b>Fund Balance - January 1</b>                         | <b>1,370,426</b>    | <b>1,370,426</b>    | <b>1,370,426</b>    | <b>-</b>  |
| <b>Fund Balance - December 31</b>                       | <b>\$ 592,102</b>   | <b>\$ 1,370,426</b> | <b>\$ 1,549,773</b> | <b>\$ 179,347</b>                                       |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 4**

**SCHEDULE OF FUNDING PROGRESS  
OTHER POST-EMPLOYMENT BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**PRIMARY GOVERNMENT**

| <u>Actuarial<br/>Valuation Date</u> | <u>Actuarial<br/>Value of Assets</u> | <u>Actuarial Accrued<br/>Liability (AAL) —<br/>Simplified<br/>Entry Age</u> | <u>Unfunded AAL<br/>(UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a<br/>Percentage of<br/>Covered Payroll</u> |
|-------------------------------------|--------------------------------------|---|--------------------------------|---------------------|------------------------|--|
| January 1, 2013                     | -                                    | 691,502   | 691,502                        | -                   | 2,991,975              | 23.1%  |
| January 1, 2014                     | -                                    | -   | -                              | -                   | 2,982,840              | 0.0%   |
| January 1, 2015                     | -                                    | -   | -                              | -                   | 3,096,721              | 0.0%   |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 5**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS  
OTHER POST-EMPLOYMENT BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**PRIMARY GOVERNMENT**

| <b>Fiscal<br/>Year Ended</b> | <b>Annual<br/>OPEB Cost</b> | <b>Employer<br/>Contribution</b> | <b>Percentage of<br/>Annual OPEB<br/>Cost Contributed</b> | <b>Net OPEB<br/>Obligation</b> |
|------------------------------|-----------------------------|----------------------------------|---|--------------------------------|
| December 31, 2013            | 28,267                      | 7,942                            | 28%   | 269,167                        |
| December 31, 2014            | (98,454)                    | 2,480                            | -3%   | 168,233                        |
| December 31, 2015            | (75,056)                    | 1,497                            | -2%   | 91,680                         |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 6**

**SCHEDULE OF CONTRIBUTIONS  
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN**

| <b>Fiscal<br/>Year Ending</b> | <b>Statutorily<br/>Required<br/>Contribution</b> | <b>Contributions in<br/>Relation to the<br/>Statutorily Required<br/>Contribution</b> | <b>Contribution<br/>Deficiency<br/>(Excess)</b> | <b>Covered<br/>Payroll</b> | <b>Contributions as a<br/>Percentage of<br/>Covered<br/>Payroll</b> |
|-------------------------------|--|---|---|----------------------------|---|
| December 31, 2015             | \$ 206,556                                       | \$ 206,556  | \$ -  | \$ 2,761,660               | 7.5%  |

**PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN**

| <b>Fiscal<br/>Year Ending</b> | <b>Statutorily<br/>Required<br/>Contribution</b> | <b>Contributions in<br/>Relation to the<br/>Statutorily Required<br/>Contribution</b> | <b>Contribution<br/>Deficiency<br/>(Excess)</b> | <b>Covered<br/>Payroll</b> | <b>Contributions as a<br/>Percentage of<br/>Covered<br/>Payroll</b> |
|-------------------------------|--|---|---|----------------------------|---|
| December 31, 2015             | \$ 60,843  | \$ 60,843   | \$ -  | \$ 375,571                 | 16.2%   |

**PUBLIC EMPLOYEES CORRECTIONAL FUND PENSION PLAN**

| <b>Fiscal<br/>Year Ending</b> | <b>Statutorily<br/>Required<br/>Contribution</b> | <b>Contributions in<br/>Relation to the<br/>Statutorily Required<br/>Contribution</b> | <b>Contribution<br/>Deficiency<br/>(Excess)</b> | <b>Covered<br/>Payroll</b> | <b>Contributions as a<br/>Percentage of<br/>Covered<br/>Payroll</b> |
|-------------------------------|--|---|---|----------------------------|---|
| December 31, 2015             | \$ 23,478  | \$ 23,478   | \$ -  | \$ 268,318                 | 8.75%   |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

Schedule 7

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN**

| <u>Fiscal<br/>Year Ending</u> | <u>Proportion<br/>of the<br/>Net Pension<br/>Liability</u> | <u>Proportionate<br/>Share of the<br/>Net Pension<br/>Liability (Asset)</u> | <u>Covered<br/>Payroll</u> | <u>Proportionate Share<br/>of the Net Pension<br/>Liability as a<br/>Percentage of its<br/>Covered<br/>Payroll</u> | <u>Plan Fiduciary Net<br/>Position as a<br/>Percentage of the<br/>Total Pension<br/>Liability</u> |
|-------------------------------|--|---|----------------------------|--|---|
| June 30, 2015                 | 0.0462%  | \$ 2,394,324  | \$ 2,704,624               | 88.53%   | 78.20%  |

**PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN**

| <u>Fiscal<br/>Year Ending</u> | <u>Proportion<br/>of the<br/>Net Pension<br/>Liability</u> | <u>Proportionate<br/>Share of the<br/>Net Pension<br/>Liability (Asset)</u> | <u>Covered<br/>Payroll</u> | <u>Proportionate Share<br/>of the Net Pension<br/>Liability as a<br/>Percentage of its<br/>Covered<br/>Payroll</u> | <u>Plan Fiduciary Net<br/>Position as a<br/>Percentage of the<br/>Total Pension<br/>Liability</u> |
|-------------------------------|--|---|----------------------------|--|---|
| June 30, 2015                 | 0.0420%  | \$ 477,218  | \$ 387,524                 | 123.15%  | 86.60%  |

**PUBLIC EMPLOYEES CORRECTIONAL FUND PENSION PLAN**

| <u>Fiscal<br/>Year Ending</u> | <u>Proportion<br/>of the<br/>Net Pension<br/>Liability</u> | <u>Proportionate<br/>Share of the<br/>Net Pension<br/>Liability (Asset)</u> | <u>Covered<br/>Payroll</u> | <u>Proportionate Share<br/>of the Net Pension<br/>Liability as a<br/>Percentage of its<br/>Covered<br/>Payroll</u> | <u>Plan Fiduciary Net<br/>Position as a<br/>Percentage of the<br/>Total Pension<br/>Liability</u> |
|-------------------------------|--|---|----------------------------|--|---|
| June 30, 2015                 | 0.1500%  | \$ 23,190   | \$ 265,523                 | 8.73%  | 96.90%  |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

I. Budgetary Information

A. Budget Policy

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

On or before the end of July of each year, all departments and agencies submit requests for appropriations to the County Administrator so that a budget can be prepared. Before September 15, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The County's department head may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the departmental level.

B. Excess of Expenditures Over Budget

The following departments had expenditures in excess of budget for the year ended December 31, 2015:

|   | <u>Expenditures</u> | <u>Budget</u> | <u>Excess</u> |
|---|---------------------|---------------|---------------|
| General Fund                              |                     |               |               |
| General government                        |                     |               |               |
| District court                            | \$ 30,195           | \$ 15,300     | \$ (14,895)   |
| Law library                               | 8,397               | 6,500         | (1,897)       |
| Recorder                                  | 145,273             | 144,428       | (845)         |
| Surveyor                                  | 3,137               | 2,000         | (1,137)       |
| Buildings and grounds                     | 219,652             | 217,789       | (1,863)       |
| Veterans service officer                  | 40,135              | 31,717        | (8,418)       |
| Insurance                                 | 48,805              | 46,725        | (2,080)       |
| Public Safety                             |                     |               |               |
| Sheriff                                   | 760,931             | 748,530       | (12,401)      |
| Emergency management                      | 50,390              | 46,659        | (3,731)       |
| Victim assistance                         | 53                  | -             | (53)          |
| Culture and recreation                    |                     |               |               |
| Snowmobile and ski trails                 | 103,017             | -             | (103,017)     |
| Conservation of natural resources         |                     |               |               |
| Aquatic invasive species                  | 9,861               | -             | (9,861)       |
| Economic development                      |                     |               |               |
| MN Red River Valley Development Authority | 800                 | -             | (800)         |
| Other economic development                | 1,000               | -             | (1,000)       |
| Road and Bridge Special Revenue Fund      |                     |               |               |
| Highways and streets                      |                     |               |               |
| Maintenance                               | 1,422,908           | 1,261,174     | (161,734)     |
| Township roads                            | 502,438             | -             | (502,438)     |



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Budgetary Information

B. Excess of Expenditures Over Budget (Continued)

|                                      | <u>Expenditures</u> | <u>Budget</u> | <u>Excess</u> |
|--------------------------------------|---------------------|---------------|---------------|
| Social Services Special Revenue Fund |                     |               |               |
| Human services                       |                     |               |               |
| Income maintenance                   | \$ 533,328          | \$ 475,013    | \$ (58,315)   |

II. Other Post-Employment Benefits (OPEB)

Since the last actuarial valuation as of January 1, 2015, the following actuarial assumptions have been changed:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality assumptions were updated to include the RP-2015 tables, including the generational improvement scale, to include future mortality improvement. This change caused an increase in the liability.
- Starting claim costs were developed by age adjusting the premium information provided by Roseau County.
- The prior valuation assumed the post-retirement medical subsidy remained constant after retirement. Since the Board contribution to retiree VEBA accounts does increase the same as actives, pre and post-retirement medical trend has been applied to the subsidy in this valuation.

There have been no changes to the plan provisions since the last actuarial valuation as of January 1, 2014. Currently, three year's actuarial data is available. For more information, refer to Schedules 4 and 5 of this section and the Notes to the Financial Statements Section V., Other Post-Employment Benefits.

III. Net Pension Liability

The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of determining the actuarially determined contribution rates. The assumptions and methods used for this actuarial valuation were recommend by PERA and adopted by the County Commissioners.

For more information, refer to Schedules 6 and 7 of this section and the Notes to the Financial Statements.

**SUPPLEMENTARY INFORMATION**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**NONMAJOR GOVERNMENTAL FUNDS**

Special Revenue Funds

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

The Forfeited Tax Sale Special Revenue Fund is used to account for and report proceeds from the sale or rental of lands forfeited to the State of Minnesota pursuant to Minnesota Statutes, Chapter 282 and various forest and timber management grants. The net proceeds, after deducting allowable expenses, are restricted to various County funds and taxing districts. Titles to the tax-forfeited lands remains with the State until the lands are sold by the County.

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

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Statement 1*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2015**

|   | Special Revenue Funds |                       |                     |                          | Total Nonmajor<br>Special Revenue<br>Funds<br>(Exhibit 3) |
|---|-----------------------|-----------------------|---------------------|--------------------------|---|
|   | Ditch                 | Forfeited<br>Tax Sale | Health<br>Insurance | Unorganized<br>Townships |   |
| <b>Assets</b>   |                       |                       |                     |                          |   |
| Cash and pooled investments   | \$ 502,271            | \$ 10                 | \$ 57,664           | \$ 224,935               | \$ 784,880  |
| Taxes receivable - prior  | -                     | -                     | -                   | 330                      | 330   |
| Special assessments receivable - prior                                    | 551                   | -                     | -                   | -                        | 551   |
| Due from other governments  | 4,900                 | -                     | -                   | -                        | 4,900   |
| <b>Total Assets</b>   | <b>\$ 507,722</b>     | <b>\$ 10</b>          | <b>\$ 57,664</b>    | <b>\$ 225,265</b>        | <b>\$ 790,661</b>   |
| <b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>       |                       |                       |                     |                          |   |
| <b>Liabilities</b>  |                       |                       |                     |                          |   |
| Accounts payable  | \$ 1,130              | \$ -                  | \$ -                | \$ -                     | \$ 1,130  |
| Due to other funds  | 2,766                 | -                     | -                   | 1,780                    | 4,546   |
| Due to other governments  | 167                   | 126                   | -                   | -                        | 293   |
| Advances from other funds   | 19,100                | 46,143                | -                   | -                        | 65,243  |
| <b>Total Liabilities</b>  | <b>\$ 23,163</b>      | <b>\$ 46,269</b>      | <b>\$ -</b>         | <b>\$ 1,780</b>          | <b>\$ 71,212</b>  |
| <b>Deferred Inflows of Resources</b>                                      |                       |                       |                     |                          |   |
| Taxes   | \$ -                  | \$ -                  | \$ -                | \$ 160                   | \$ 160  |
| Special assessments   | 218                   | -                     | -                   | -                        | 218   |
| <b>Total Deferred Inflows of Resources</b>                                | <b>\$ 218</b>         | <b>\$ -</b>           | <b>\$ -</b>         | <b>\$ 160</b>            | <b>\$ 378</b>   |
| <b>Fund Balances</b>  |                       |                       |                     |                          |   |
| Restricted for conservation of natural resources                          | \$ 484,341            | \$ -                  | \$ -                | \$ -                     | \$ 484,341  |
| Assigned to   |                       |                       |                     |                          |   |
| Unorganized townships   | -                     | -                     | -                   | 223,325                  | 223,325   |
| Insurance   | -                     | -                     | 57,664              | -                        | 57,664  |
| Unassigned  | -                     | (46,259)              | -                   | -                        | (46,259)  |
| <b>Total Fund Balances</b>  | <b>\$ 484,341</b>     | <b>\$ (46,259)</b>    | <b>\$ 57,664</b>    | <b>\$ 223,325</b>        | <b>\$ 719,071</b>   |
| <b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b> | <b>\$ 507,722</b>     | <b>\$ 10</b>          | <b>\$ 57,664</b>    | <b>\$ 225,265</b>        | <b>\$ 790,661</b>   |

**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, 2015**

|                                   | Special Revenue Funds |                       |                     |                          | Total Nonmajor<br>Special Revenue<br>Funds<br>(Exhibit 5) |
|-----------------------------------|-----------------------|-----------------------|---------------------|--------------------------|---|
|                                   | Ditch                 | Forfeited<br>Tax Sale | Health<br>Insurance | Unorganized<br>Townships |   |
| <b>Revenues</b>                   |                       |                       |                     |                          |   |
| Taxes                             | \$ -                  | \$ -                  | \$ -                | \$ 33,920                | \$ 33,920   |
| Special assessments               | 58,919                | -                     | -                   | -                        | 58,919  |
| Intergovernmental                 | -                     | -                     | -                   | 34,845                   | 34,845  |
| Charges for services              | 10,355                | -                     | -                   | -                        | 10,355  |
| Land and timber sales             | -                     | 19,794                | -                   | -                        | 19,794  |
| Miscellaneous                     | -                     | -                     | 619,078             | 5                        | 619,083   |
| <b>Total Revenues</b>             | <b>\$ 69,274</b>      | <b>\$ 19,794</b>      | <b>\$ 619,078</b>   | <b>\$ 68,770</b>         | <b>\$ 776,916</b>   |
| <b>Expenditures</b>               |                       |                       |                     |                          |   |
| <b>Current</b>                    |                       |                       |                     |                          |   |
| General government                | \$ -                  | \$ -                  | \$ 566,354          | \$ -                     | \$ 566,354  |
| Public safety                     | -                     | -                     | -                   | 6,082                    | 6,082   |
| Highways and streets              | -                     | -                     | -                   | 60,441                   | 60,441  |
| Conservation of natural resources | 96,592                | 511                   | -                   | -                        | 97,103  |
| <b>Total Expenditures</b>         | <b>\$ 96,592</b>      | <b>\$ 511</b>         | <b>\$ 566,354</b>   | <b>\$ 66,523</b>         | <b>\$ 729,980</b>   |
| <b>Net Change in Fund Balance</b> | <b>\$ (27,318)</b>    | <b>\$ 19,283</b>      | <b>\$ 52,724</b>    | <b>\$ 2,247</b>          | <b>\$ 46,936</b>  |
| <b>Fund Balance - January 1</b>   | <b>511,659</b>        | <b>(65,542)</b>       | <b>4,940</b>        | <b>221,078</b>           | <b>672,135</b>  |
| <b>Fund Balance - December 31</b> | <b>\$ 484,341</b>     | <b>\$ (46,259)</b>    | <b>\$ 57,664</b>    | <b>\$ 223,325</b>        | <b>\$ 719,071</b>   |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 8*

**BUDGETARY COMPARISON SCHEDULE  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|   | Budgeted Amounts  |                   | Actual<br>Amounts  | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|-------------------|-------------------|--------------------|---|
|   | Original          | Final             |                    |   |
| <b>Revenues</b>   |                   |                   |                    |   |
| Special assessments                                     | \$ 58,500         | \$ 58,500         | \$ 58,919          | \$ 419  |
| Charges for services                                    | -                 | -                 | 10,355             | 10,355  |
| <b>Total Revenues</b>                                   | <b>\$ 58,500</b>  | <b>\$ 58,500</b>  | <b>\$ 69,274</b>   | <b>\$ 10,774</b>  |
| <b>Expenditures</b>                                     |                   |                   |                    |   |
| <b>Current</b>  |                   |                   |                    |   |
| <b>Conservation of natural resources</b>                |                   |                   |                    |   |
| Administration  | -                 | -                 | 450                | (450)   |
| Maintenance and repairs                                 | 15,500            | 15,500            | 96,142             | (80,642)  |
| <b>Total Expenditures</b>                               | <b>\$ 15,500</b>  | <b>\$ 15,500</b>  | <b>\$ 96,592</b>   | <b>\$ (81,092)</b>                                      |
| <b>Excess of Revenues Over<br/>(Under) Expenditures</b> | <b>\$ 43,000</b>  | <b>\$ 43,000</b>  | <b>\$ (27,318)</b> | <b>\$ (70,318)</b>                                      |
| <b>Fund Balance - January 1</b>                         | <b>511,659</b>    | <b>511,659</b>    | <b>511,659</b>     | <b>-</b>  |
| <b>Fund Balance - December 31</b>                       | <b>\$ 554,659</b> | <b>\$ 554,659</b> | <b>\$ 484,341</b>  | <b>\$ (70,318)</b>                                      |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 9*

**BUDGETARY COMPARISON SCHEDULE  
FORFEITED TAX SALE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|  | <u>Budgeted Amounts</u> |                    | <u>Actual<br/>Amounts</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|--|-------------------------|--------------------|---------------------------|---|
|  | <u>Original</u>         | <u>Final</u>       |                           |   |
| <b>Revenues</b>                          |                         |                    |                           |   |
| Land and timber sales                    | \$ 18,000               | \$ 18,000          | \$ 19,794                 | \$ 1,794  |
| <b>Expenditures</b>                      |                         |                    |                           |   |
| <b>Current</b>                           |                         |                    |                           |   |
| <b>Conservation of natural resources</b> |                         |                    |                           |   |
| Forfeited land                           | 1,300                   | 1,300              | 511                       | 789   |
| <b>Excess of Revenues Over (Under)</b>   |                         |                    |                           |   |
| <b>Expenditures</b>                      | \$ 16,700               | \$ 16,700          | \$ 19,283                 | \$ 2,583  |
| <b>Fund Balance - January 1</b>          | <u>(65,542)</u>         | <u>(65,542)</u>    | <u>(65,542)</u>           | <u>-</u>  |
| <b>Fund Balance - December 31</b>        | <u>\$ (48,842)</u>      | <u>\$ (48,842)</u> | <u>\$ (46,259)</u>        | <u>\$ 2,583</u>   |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 10*

**BUDGETARY COMPARISON SCHEDULE  
HEALTH INSURANCE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|   | <u>Budgeted Amounts</u> |                     | <u>Actual<br/>Amounts</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|---|-------------------------|---------------------|---------------------------|---|
|   | <u>Original</u>         | <u>Final</u>        |                           |   |
| <b>Revenues</b>   |                         |                     |                           |   |
| Miscellaneous   | \$ 619,000              | \$ 619,000          | \$ 619,078                | \$ 78   |
| <b>Expenditures</b>                                     |                         |                     |                           |   |
| <b>Current</b>  |                         |                     |                           |   |
| <b>General government</b>                               |                         |                     |                           |   |
| Insurance   | 619,000                 | 619,000             | 566,354                   | 52,646  |
| <b>Excess of Revenues Over<br/>(Under) Expenditures</b> | <b>\$ -</b>             | <b>\$ -</b>         | <b>\$ 52,724</b>          | <b>\$ 52,724</b>  |
| <b>Fund Balance - January 1</b>                         | <b>4,940</b>            | <b>4,940</b>        | <b>4,940</b>              | <b>-</b>  |
| <b>Fund Balance - December 31</b>                       | <b><u>4,940</u></b>     | <b><u>4,940</u></b> | <b><u>57,664</u></b>      | <b><u>52,724</u></b>  |



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 11*

**BUDGETARY COMPARISON SCHEDULE  
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|   | Budgeted Amounts |                  | Actual<br>Amounts | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|------------------|------------------|-------------------|---|
|   | Original         | Final            |                   |   |
| <b>Revenues</b>   |                  |                  |                   |   |
| Taxes   | \$ 53,300        | \$ 53,300        | \$ 33,920         | \$ (19,380)   |
| Intergovernmental                                       | 10,500           | 10,500           | 34,845            | 24,345  |
| Miscellaneous   | 3,500            | 3,500            | 5                 | (3,495)   |
| <b>Total Revenues</b>                                   | <b>\$ 67,300</b> | <b>\$ 67,300</b> | <b>\$ 68,770</b>  | <b>\$ 1,470</b>   |
| <b>Expenditures</b>                                     |                  |                  |                   |   |
| <b>Current</b>  |                  |                  |                   |   |
| <b>Public safety</b>                                    |                  |                  |                   |   |
| Fire protection   | \$ 5,900         | \$ 5,900         | \$ 6,082          | \$ (182)  |
| <b>Highways and streets</b>                             |                  |                  |                   |   |
| Township roads  | 61,000           | 61,000           | 60,441            | 559   |
| <b>Total Expenditures</b>                               | <b>\$ 66,900</b> | <b>\$ 66,900</b> | <b>\$ 66,523</b>  | <b>\$ 377</b>   |
| <b>Excess of Revenues Over<br/>(Under) Expenditures</b> | <b>\$ 400</b>    | <b>\$ 400</b>    | <b>\$ 2,247</b>   | <b>\$ 1,847</b>   |
| <b>Fund Balance - January 1</b>                         | <b>-</b>         | <b>-</b>         | <b>221,078</b>    | <b>221,078</b>  |
| <b>Fund Balance - December 31</b>                       | <b>\$ 400</b>    | <b>\$ 400</b>    | <b>\$ 223,325</b> | <b>\$ 222,925</b>                                       |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**FIDUCIARY FUNDS**

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

Agency Funds

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

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

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

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

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

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

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

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

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Statement 3*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|  | Balance<br>January 1 | Additions    | Deductions   | Balance<br>December 31 |
|--|----------------------|--------------|--------------|------------------------|
| <b><u>AGENCY</u></b>   |                      |              |              |                        |
| <b><u>Assets</u></b>   |                      |              |              |                        |
| Cash and pooled investments  | \$ 23,142            | \$ 5,189,285 | \$ 5,178,867 | \$ 33,560              |
| <b><u>Liabilities</u></b>  |                      |              |              |                        |
| Due to other governments   | \$ 23,142            | \$ 5,189,285 | \$ 5,178,867 | \$ 33,560              |
| <br><b><u>FLEXIBLE BENEFITS</u></b>                                  |                      |              |              |                        |
| <b><u>Assets</u></b>   |                      |              |              |                        |
| Cash and pooled investments  | \$ 6,009             | \$ 21,278    | \$ 21,096    | \$ 6,191               |
| <b><u>Liabilities</u></b>  |                      |              |              |                        |
| Accounts payable   | \$ 6,009             | \$ 21,278    | \$ 21,096    | \$ 6,191               |
| <br><b><u>KITTSOON COUNTY CHILDREN'S<br/>COLLABORATIVE</u></b>       |                      |              |              |                        |
| <b><u>Assets</u></b>   |                      |              |              |                        |
| Cash and pooled investments  | \$ 17,448            | \$ 5,143     | \$ 3,392     | \$ 19,199              |
| <b><u>Liabilities</u></b>  |                      |              |              |                        |
| Accounts payable   | \$ 17,448            | \$ 5,143     | \$ 3,392     | \$ 19,199              |
| <br><b><u>KITTSOON COUNTY ECONOMIC<br/>DEVELOPMENT AUTHORITY</u></b> |                      |              |              |                        |
| <b><u>Assets</u></b>   |                      |              |              |                        |
| Cash and pooled investments  | \$ 139,218           | \$ 66,992    | \$ 14,802    | \$ 191,408             |
| <b><u>Liabilities</u></b>  |                      |              |              |                        |
| Accounts payable   | \$ 139,218           | \$ 66,992    | \$ 14,802    | \$ 191,408             |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Statement 3  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|  | <u>Balance<br/>January 1</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance<br/>December 31</u> |
|--|------------------------------|------------------|-------------------|--------------------------------|
| <b><u>KITTSOON-MARSHALL RURAL<br/>WATER SYSTEM</u></b> |                              |                  |                   |                                |
| <b><u>Assets</u></b>                                   |                              |                  |                   |                                |
| Cash and pooled investments                            | \$ 1,196                     | \$ 656           | \$ -              | \$ 1,852                       |
| <b><u>Liabilities</u></b>                              |                              |                  |                   |                                |
| Due to other governments                               | \$ 1,196                     | \$ 656           | \$ -              | \$ 1,852                       |
| <br><b><u>MAR-KIT LANDFILL</u></b>                     |                              |                  |                   |                                |
| <b><u>Assets</u></b>                                   |                              |                  |                   |                                |
| Cash and pooled investments                            | \$ 3,361,574                 | \$ 2,728,212     | \$ 3,732,442      | \$ 2,357,344                   |
| <b><u>Liabilities</u></b>                              |                              |                  |                   |                                |
| Due to other governments                               | \$ 3,361,574                 | \$ 2,728,212     | \$ 3,732,442      | \$ 2,357,344                   |
| <br><b><u>STATE</u></b>                                |                              |                  |                   |                                |
| <b><u>Assets</u></b>                                   |                              |                  |                   |                                |
| Cash and pooled investments                            | \$ 13,118                    | \$ 1,914,299     | \$ 1,907,121      | \$ 20,296                      |
| <b><u>Liabilities</u></b>                              |                              |                  |                   |                                |
| Due to other governments                               | \$ 13,118                    | \$ 1,914,299     | \$ 1,907,121      | \$ 20,296                      |
| <br><b><u>TAXES AND PENALTIES</u></b>                  |                              |                  |                   |                                |
| <b><u>Assets</u></b>                                   |                              |                  |                   |                                |
| Cash and pooled investments                            | \$ 170,174                   | \$ 10,137,529    | \$ 10,112,805     | \$ 194,898                     |
| <b><u>Liabilities</u></b>                              |                              |                  |                   |                                |
| Due to other governments                               | \$ 170,174                   | \$ 10,137,529    | \$ 10,112,805     | \$ 194,898                     |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Statement 3*  
*(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|  | Balance<br>January 1 | Additions            | Deductions           | Balance<br>December 31 |
|--|----------------------|----------------------|----------------------|------------------------|
| <b><u>WATERSHED DITCH</u></b>            |                      |                      |                      |                        |
| <b><u>Assets</u></b>                     |                      |                      |                      |                        |
| Cash and pooled investments              | \$ -                 | \$ 134,297           | \$ 134,297           | \$ -                   |
| <b><u>Liabilities</u></b>                |                      |                      |                      |                        |
| Due to other governments                 | \$ -                 | \$ 134,297           | \$ 134,297           | \$ -                   |
| <br><b><u>TOTAL ALL AGENCY FUNDS</u></b> |                      |                      |                      |                        |
| <b><u>Assets</u></b>                     |                      |                      |                      |                        |
| Cash and pooled investments              | \$ 3,731,879         | \$ 20,197,691        | \$ 21,104,822        | \$ 2,824,748           |
| <b><u>Liabilities</u></b>                |                      |                      |                      |                        |
| Accounts payable                         | \$ 162,675           | \$ 93,413            | \$ 39,290            | \$ 216,798             |
| Due to other governments                 | 3,569,204            | 20,104,278           | 21,065,532           | 2,607,950              |
| <b>Total Liabilities</b>                 | <b>\$ 3,731,879</b>  | <b>\$ 20,197,691</b> | <b>\$ 21,104,822</b> | <b>\$ 2,824,748</b>    |

## **OTHER SCHEDULES**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**BALANCE SHEET - BY DITCH  
DITCH SPECIAL REVENUE FUND  
DECEMBER 31, 2015**

|                             | Assets                            |   |                                  |                   |
|-----------------------------|-----------------------------------|---|----------------------------------|-------------------|
|                             | Cash and<br>Pooled<br>Investments | Special Assessments<br>Receivable - Prior | Due from<br>Other<br>Governments | Total             |
| <b>County Ditches</b>       |                                   |   |                                  |                   |
| 1                           | \$ 47,134                         | \$ 6                                      | \$ -                             | \$ 47,140         |
| 4                           | 10,429                            | -   | -                                | 10,429            |
| 8                           | 10,394                            | -   | -                                | 10,394            |
| 9                           | 14,342                            | -   | -                                | 14,342            |
| 11                          | 10,074                            | -   | -                                | 10,074            |
| 12                          | 2,212                             | -   | -                                | 2,212             |
| 13                          | 84                                | -   | -                                | 84                |
| 14                          | 8,446                             | -   | -                                | 8,446             |
| 15                          | 2,194                             | 53  | -                                | 2,247             |
| 16                          | 47,497                            | -   | -                                | 47,497            |
| 17                          | 15,127                            | -   | -                                | 15,127            |
| 18                          | 11,967                            | 16  | -                                | 11,983            |
| 19                          | 16,210                            | -   | -                                | 16,210            |
| 20                          | 4,583                             | -   | -                                | 4,583             |
| 21                          | 9,723                             | -   | -                                | 9,723             |
| 22                          | 25,479                            | -   | -                                | 25,479            |
| 23                          | 1,197                             | 7   | -                                | 1,204             |
| 25                          | 74                                | -   | -                                | 74                |
| 26                          | 10,951                            | -   | -                                | 10,951            |
| 27                          | 25,657                            | -   | -                                | 25,657            |
| 28                          | 16,740                            | -   | -                                | 16,740            |
| 29                          | 20,532                            | -   | -                                | 20,532            |
| 30                          | 5,922                             | -   | -                                | 5,922             |
| 31                          | 23,992                            | -   | -                                | 23,992            |
| 33                          | 6,735                             | -   | -                                | 6,735             |
| <b>Joint County Ditches</b> |                                   |   |                                  |                   |
| 31                          | 110                               | 24  | -                                | 134               |
| 32                          | 3,714                             | -   | -                                | 3,714             |
| 33                          | 11,581                            | -   | 3                                | 11,584            |
| <b>State Ditches</b>        |                                   |   |                                  |                   |
| 1                           | 17,627                            | -   | -                                | 17,627            |
| 48R                         | 5,376                             | 17  | -                                | 5,393             |
| 50                          | 9,594                             | -   | 105                              | 9,699             |
| 72                          | 21,625                            | 25  | 2,950                            | 24,600            |
| 84                          | (4,181)                           | 69  | -                                | (4,112)           |
| 85                          | 22,734                            | -   | -                                | 22,734            |
| 90                          | 13,071                            | 198                                       | 1,424                            | 14,693            |
| 95                          | 53,325                            | 136                                       | 418                              | 53,879            |
| <b>Total</b>                | <b>\$ 502,271</b>                 | <b>\$ 551</b>                             | <b>\$ 4,900</b>                  | <b>\$ 507,722</b> |

Schedule 12

| Accounts Payable | Liabilities        |                          |                           |                  | Deferred Inflows of Resources | Fund Balances Restricted | Total Liabilities, Deferred Inflows and Fund Balances |
|------------------|--------------------|--------------------------|---------------------------|------------------|-------------------------------|--------------------------|---|
|                  | Due to Other Funds | Due to Other Governments | Advances from Other Funds | Total            |                               |                          |   |
| \$ -             | \$ -               | \$ -                     | \$ -                      | \$ -             | \$ -                          | \$ 47,140                | \$ 47,140   |
| -                | -                  | -                        | -                         | -                | 6                             | 10,423                   | 10,429  |
| -                | -                  | -                        | -                         | -                | -                             | 10,394                   | 10,394  |
| -                | -                  | -                        | -                         | -                | -                             | 14,342                   | 14,342  |
| -                | 227                | -                        | -                         | 227              | -                             | 9,847                    | 10,074  |
| -                | -                  | -                        | -                         | -                | -                             | 2,212                    | 2,212   |
| 250              | -                  | -                        | 5,100                     | 5,350            | -                             | (5,266)                  | 84  |
| -                | 130                | -                        | -                         | 130              | -                             | 8,316                    | 8,446   |
| 320              | -                  | -                        | -                         | 320              | -                             | 1,927                    | 2,247   |
| -                | -                  | -                        | -                         | -                | -                             | 47,497                   | 47,497  |
| -                | -                  | -                        | -                         | -                | -                             | 15,127                   | 15,127  |
| -                | -                  | -                        | -                         | -                | -                             | 11,983                   | 11,983  |
| -                | -                  | -                        | -                         | -                | -                             | 16,210                   | 16,210  |
| -                | -                  | -                        | -                         | -                | -                             | 4,583                    | 4,583   |
| -                | -                  | -                        | -                         | -                | -                             | 9,723                    | 9,723   |
| -                | 78                 | -                        | -                         | 78               | -                             | 25,401                   | 25,479  |
| 80               | -                  | -                        | -                         | 80               | -                             | 1,124                    | 1,204   |
| -                | -                  | -                        | 2,300                     | 2,300            | -                             | (2,226)                  | 74  |
| -                | -                  | -                        | -                         | -                | -                             | 10,951                   | 10,951  |
| -                | -                  | -                        | -                         | -                | -                             | 25,657                   | 25,657  |
| -                | -                  | -                        | -                         | -                | -                             | 16,740                   | 16,740  |
| -                | -                  | -                        | -                         | -                | -                             | 20,532                   | 20,532  |
| -                | -                  | -                        | -                         | -                | -                             | 5,922                    | 5,922   |
| -                | -                  | -                        | -                         | -                | -                             | 23,992                   | 23,992  |
| -                | -                  | -                        | -                         | -                | -                             | 6,735                    | 6,735   |
| -                | -                  | -                        | 7,300                     | 7,300            | 24                            | (7,190)                  | 134   |
| -                | -                  | -                        | -                         | -                | -                             | 3,714                    | 3,714   |
| -                | -                  | -                        | -                         | -                | -                             | 11,584                   | 11,584  |
| -                | -                  | -                        | -                         | -                | -                             | 17,627                   | 17,627  |
| -                | -                  | -                        | -                         | -                | 15                            | 5,378                    | 5,393   |
| 200              | -                  | -                        | -                         | 200              | -                             | 9,499                    | 9,699   |
| 120              | 1,516              | -                        | 4,400                     | 6,036            | 25                            | 18,539                   | 24,600  |
| -                | -                  | -                        | -                         | -                | 20                            | (4,132)                  | (4,112)   |
| -                | 815                | -                        | -                         | 815              | -                             | 21,919                   | 22,734  |
| -                | -                  | 167                      | -                         | 167              | 7                             | 14,519                   | 14,693  |
| 160              | -                  | -                        | -                         | 160              | 121                           | 53,598                   | 53,879  |
| <b>\$ 1,130</b>  | <b>\$ 2,766</b>    | <b>\$ 167</b>            | <b>\$ 19,100</b>          | <b>\$ 23,163</b> | <b>\$ 218</b>                 | <b>\$ 484,341</b>        | <b>\$ 507,722</b>                                     |



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 13*

**BALANCE SHEET - BY UNORGANIZED TOWNSHIP  
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND  
DECEMBER 31, 2015**

|  | <u>Klondike</u>         | <u>McKinley</u>         | <u>North<br/>Red River</u> | <u>Peatland</u>         | <u>Total</u>             |
|--|-------------------------|-------------------------|----------------------------|-------------------------|--------------------------|
| <b><u>Assets</u></b>   |                         |                         |                            |                         |                          |
| Cash and pooled investments  | \$ 15,639               | \$ 35,322               | \$ 114,810                 | \$ 59,164               | \$ 224,935               |
| Taxes receivable - prior   | 94                      | 20                      | 153                        | 63                      | 330                      |
| <b>Total Assets</b>  | <b><u>\$ 15,733</u></b> | <b><u>\$ 35,342</u></b> | <b><u>\$ 114,963</u></b>   | <b><u>\$ 59,227</u></b> | <b><u>\$ 225,265</u></b> |
| <b><u>Liabilities, Deferred Inflows of Resources and Fund Balance</u></b>    |                         |                         |                            |                         |                          |
| <b>Liabilities</b>   |                         |                         |                            |                         |                          |
| Due to other funds   | \$ 530                  | \$ 525                  | \$ 650                     | \$ 75                   | \$ 1,780                 |
| <b>Deferred Inflows of Resources</b>   |                         |                         |                            |                         |                          |
| Taxes  | \$ 94                   | \$ 20                   | \$ -                       | \$ 46                   | \$ 160                   |
| <b>Fund Balances</b>   |                         |                         |                            |                         |                          |
| Assigned to unorganized townships  | \$ 15,109               | \$ 34,797               | \$ 114,313                 | \$ 59,106               | \$ 223,325               |
| <b>Total Liabilities, Deferred Inflows of Resources<br/>and Fund Balance</b> | <b><u>\$ 15,733</u></b> | <b><u>\$ 35,342</u></b> | <b><u>\$ 114,963</u></b>   | <b><u>\$ 59,227</u></b> | <b><u>\$ 225,265</u></b> |

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 14**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|  | <b>Primary<br/>Government</b> |
|--|-------------------------------|
| <b>Shared Revenue</b>                          |                               |
| <b>State</b>                                   |                               |
| County program aid                             | \$ 105,648                    |
| Disparity reduction aid                        | 4,457                         |
| Enhanced 911                                   | 74,183                        |
| Highway users tax                              | 4,444,683                     |
| Market value credit                            | 116,627                       |
| PERA rate reimbursement                        | 13,874                        |
| Police state aid                               | 39,878                        |
| State gas tax                                  | 19,419                        |
| County Aquatic Invasive Species Prevention Aid | 19,661                        |
| <b>Total Shared Revenue</b>                    | <b>\$ 4,838,430</b>           |
| <b>Reimbursement for Services</b>              |                               |
| <b>State</b>                                   |                               |
| Minnesota Department of Human Services         | \$ 216,656                    |
| <b>Payments</b>                                |                               |
| Payments in lieu of taxes                      | \$ 188,448                    |
| <b>Grants</b>                                  |                               |
| <b>Local</b>                                   |                               |
| Markit Landfill                                | \$ 141,000                    |
| <b>State</b>                                   |                               |
| <b>Minnesota Department/Board of</b>           |                               |
| Corrections                                    | \$ 6,687                      |
| Human Services                                 | 81,361                        |
| Natural Resources                              | 65,653                        |
| Peace Officer Standards and Training           | 1,999                         |
| Pollution Control Agency                       | 7,500                         |
| Veterans Affairs                               | 7,500                         |
| Water and Soil Resources                       | 53,452                        |
| <b>Total State</b>                             | <b>\$ 224,152</b>             |
| <b>Federal</b>                                 |                               |
| <b>Department of</b>                           |                               |
| Agriculture                                    | \$ 44,375                     |
| Health and Human Services                      | 349,538                       |
| Homeland Security                              | 35,706                        |
| <b>Total Federal</b>                           | <b>\$ 429,619</b>             |
| <b>Total Grants</b>                            | <b>\$ 794,771</b>             |
| <b>Total Intergovernmental Revenue</b>         | <b>\$ 6,038,305</b>           |

## **MANAGEMENT AND COMPLIANCE SECTION**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 15*

SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2015

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

1996-001 Segregation of Duties

Criteria: The management of Kittson County is responsible for establishing and maintaining internal control. This responsibility includes the internal controls over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system, and where segregation of duties may not be cost effective, compensating controls should be in place.

Condition: Due to the limited number of personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Generally, one person is responsible for the financial information and activity within County departments.

Context: The small size and available staffing within the County limits the internal control that management can design and implement into the organization.

Effect: Without adequate segregation of duties, opportunities for errors and irregularities or fraudulent activities to occur are created and may not be detected in a timely manner.

Cause: This is not unusual in operations the size of Kittson County, where, because of staffing limitations, it is impractical to achieve a desirable level of segregation of duties. Management has determined that, given limited resources, it is not feasible to achieve the desired level of segregation of duties.

Recommendation: Management should continually be aware that segregation of duties is not adequate from an internal control point of view. We recommend the County Board be aware that limited staffing causes inherent risks in safeguarding the County's assets and the proper reporting of financial activity. We recommend the County Board continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

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.*

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 15**  
***(Continued)***

2007-001 Internal Controls

Criteria: The financial statements are the responsibility of Kittson County's management. Internal control over financial reporting is a process designed to provide reliable assurance about the achievement of the County's objectives with regard to reliability of financial reporting, and compliance with applicable laws and regulations. These controls must include a process for risk assessment and monitoring to ensure effectiveness and efficiency of operations.

Condition: Internal controls over financial reporting and the safeguarding of assets against unauthorized acquisition, use, or disposition include controls related to financial reporting and operational objectives. The County does not have a process for risk assessment and monitoring to ensure the internal controls are effective.

Context: Although Kittson County has a system of internal controls in spite of limited staff, they do not have written documentation of the process for monitoring those controls.

Effect: Without a documented process for monitoring internal controls, the County cannot provide assurance about the reliability of financial reporting or the effectiveness and efficiency of operations.

Cause: The County has never formalized its policies and procedures for internal controls and monitoring of those controls into a written comprehensive document.

Recommendation: We recommend the County formalize written documentation of their internal controls, including an assessment on risk and the process used to minimize the risks, and the monitoring process to ensure the reliability of financial reporting and the effectiveness and efficiency of operations.

County's Response:

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



## Hoffman, Philipp, & Knutson, PLLC

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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**

#### Independent Auditor's Report

Board of County Commissioners  
Kittson County

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kittson County as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 31, 2016.

#### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as items 1996-001 and 2007-001, that we consider to be significant deficiencies.

## **Compliance and Other Matters**

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

## **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute, § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

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

## **Kittson County's Responses to Findings**

Kittson County's responses to the findings identified in our audit have been included in the accompanying Schedule of Findings and Recommendations. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

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



Hoffman, Philipp, & Knutson, PLLC

October 31, 2015