

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

YEAR ENDED DECEMBER 31, 2016



Hoffman, Philipp, & Knutson, PLLC
Government Audit Services

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

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HALLOCK, MINNESOTA**

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INTRODUCTORY SECTION

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2016**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1 st District	Craig Spilde ¹	January 2017
2 nd District	John Anderson ²	January 2017
3 rd District	Joe Bouvette, Chair	January 2019
4 th District	Leon Olson ³	January 2017
5 th District	Betty Younggren	January 2019
Officers		
Elected:		
Attorney	Roger Malm	January 2019
Sheriff	Kenny Hultgren	January 2019
Appointed:		
Administrator	Eric Christensen	Indefinite
Assessor	Marian Paulson	December 2019
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 ⁴	May 2017

¹ Replaced by Corey Wikstrom through election. Term expires January 2021.

² Replaced by Theresia Gillie through election. Term expires January 2021.

³ Leon Olson re-elected. Term expires January 2021.

⁴ Bob Cameron re-appointed. Term expires May 2021. Submitted retirement beginning effective June 2018.

FINANCIAL SECTION

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



Hoffman, Philipp, & Knutson, PLLC

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Kittson County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kittson County, Minnesota, as of and for the year ended December 31, 2016, 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 did not audit the financial statements of the North Kittson Rural Water System, the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the North Kittson Rural Water System, is based solely on the report of the other auditors. 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Kittson County, Minnesota, as of December 31, 2016, 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.

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 supplementary 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 September 7, 2018, 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. It does not include the North Kittson Rural Water System, which was audited by other auditors.

Report on the Schedule of Expenditures of Federal Awards Required by Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis is not a required part of the basic financial statements. The SEFA 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole



Hoffman, Philipp, & Knutson, PLLC

September 7, 2018



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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, 2016. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the County's basic financial Statements that follow this section.

FINANCIAL HIGHLIGHTS

The total net position of governmental activities is \$64,156,174, of which \$59,412,740 is the net investment in capital assets, \$2,449,196 is restricted for specific purposes, and \$2,294,238 is unrestricted. The total net position of governmental activities decreased by \$2,471,923 for the year ended December 31, 2016. This is attributed primarily to the large increase in net pension liability.

At the close of 2016, the County's governmental funds reported combined ending fund balances of \$7,226,379, a decrease of \$13,544 from the prior year. Of the total fund balance amount, \$375,666 is non-spendable, \$1,798,642 is legally or contractually restricted, \$3,389,314 is assigned for specific purposes, and \$1,662,757 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 \$64,156,174 at the close of 2016. The largest portion of the County's net position (approximately 93 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 3 percent of the County's net position is unrestricted. The unrestricted net position amount of \$2,294,238, as of December 31, 2016, may be used to meet the County's ongoing obligations to citizens.

The County's overall financial position decreased from last year. Total assets decreased by \$1,545,548 from the prior year primarily due to depreciation. Total liabilities increased by \$3,214,890, from the prior year, mainly due to the increase in net pension liability. This resulted in a decreased net position of \$2,471,923 from the prior year.

PRIMARY GOVERNMENT

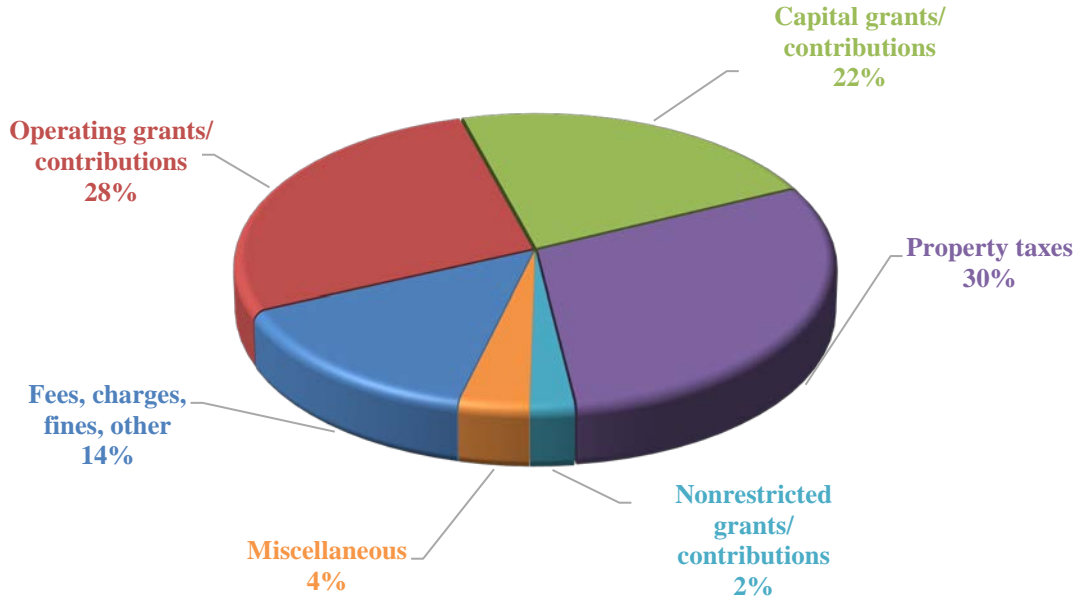
NET POSITION

	Governmental Activities	
	2016	2015
Current and other assets	\$ 9,491,520	\$ 9,417,251
Capital assets	59,412,740	61,032,557
Total assets	\$ 68,904,260	\$ 70,449,808
Deferred outflows - pensions	\$ 2,935,625	\$ 460,046
Other liabilities	\$ 1,094,015	\$ 430,007
Long-term liabilities outstanding	6,008,154	3,457,272
Total liabilities	\$ 7,102,169	\$ 3,887,279
Deferred inflows	\$ 581,542	\$ 394,478
Net position		
Net investment in capital assets	\$ 59,412,740	\$ 60,282,557
Restricted	2,449,196	2,477,635
Unrestricted	2,294,238	3,867,905
Total net position	\$ 64,156,174	\$ 66,628,097

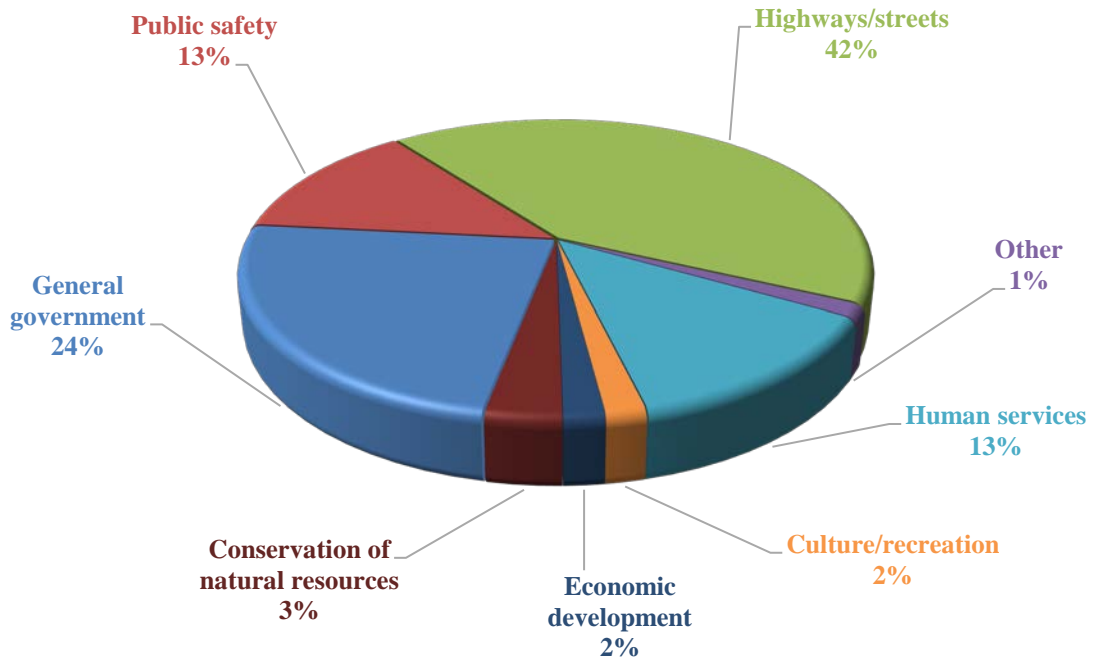
CHANGES IN NET POSITION

	Primary Government	
	Governmental Activities	
	2016	2015
Revenues		
Program Revenues		
Fees, charges, fines and other	\$ 1,744,456	\$ 1,735,174
Operating grants and contributions	3,334,213	2,909,238
Capital grants and contributions	2,692,762	2,213,924
General Revenues and Transfers		
Property taxes	3,659,056	3,574,051
Grants and contributions not restricted to specific programs	276,257	279,686
Payments in lieu of taxes	191,801	188,448
Insurance dividends	127,326	131,783
Investment earnings	119,029	192,005
Total revenues	\$ 12,144,900	\$ 11,224,309
Expenses		
General government	\$ 2,873,611	\$ 2,362,479
Public safety	1,590,408	1,139,315
Highways and streets	5,150,572	3,893,023
Sanitation	127,375	73,537
Human services	1,572,564	1,396,834
Health	34,736	36,120
Culture and recreation	214,246	223,057
Conservation of natural resources	405,378	330,252
Economic development	218,920	11,800
Total expenses	\$ 12,187,810	\$ 9,466,417
Increase (decrease)	\$ (42,910)	\$ 1,757,892
Net assets, January 1, as previously reported	\$ 66,628,097	\$ 67,626,754
Prior period adjustment	(2,429,013)	(2,756,549)
Net position, January 1, as restated	\$ 64,199,084	\$ 64,870,205
Net position, December 31	\$ 64,156,174	\$ 66,628,097

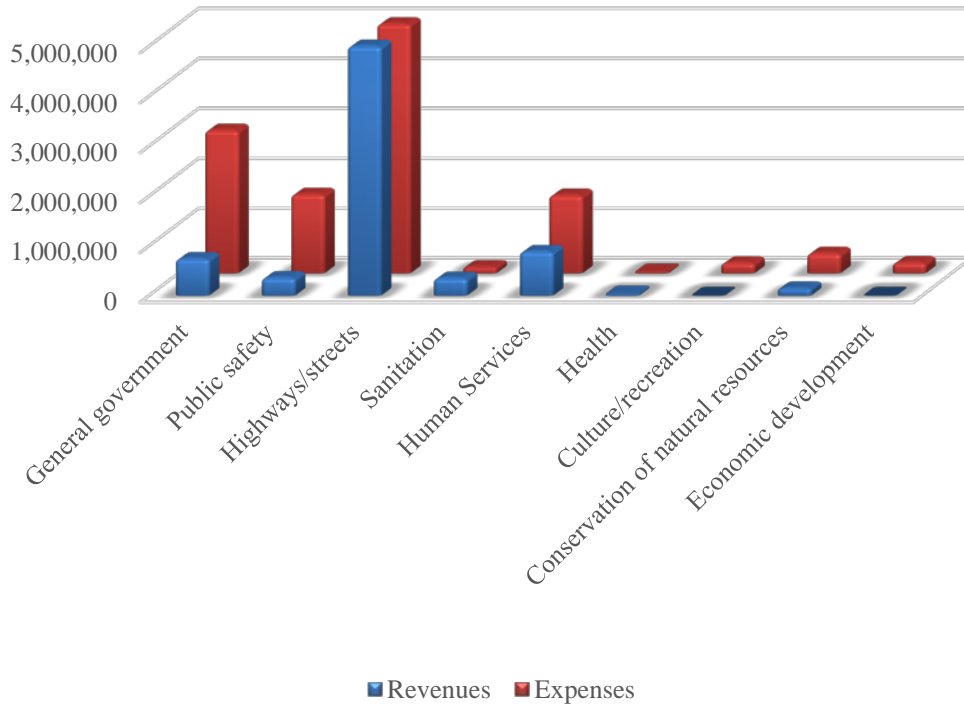
Revenues by Source



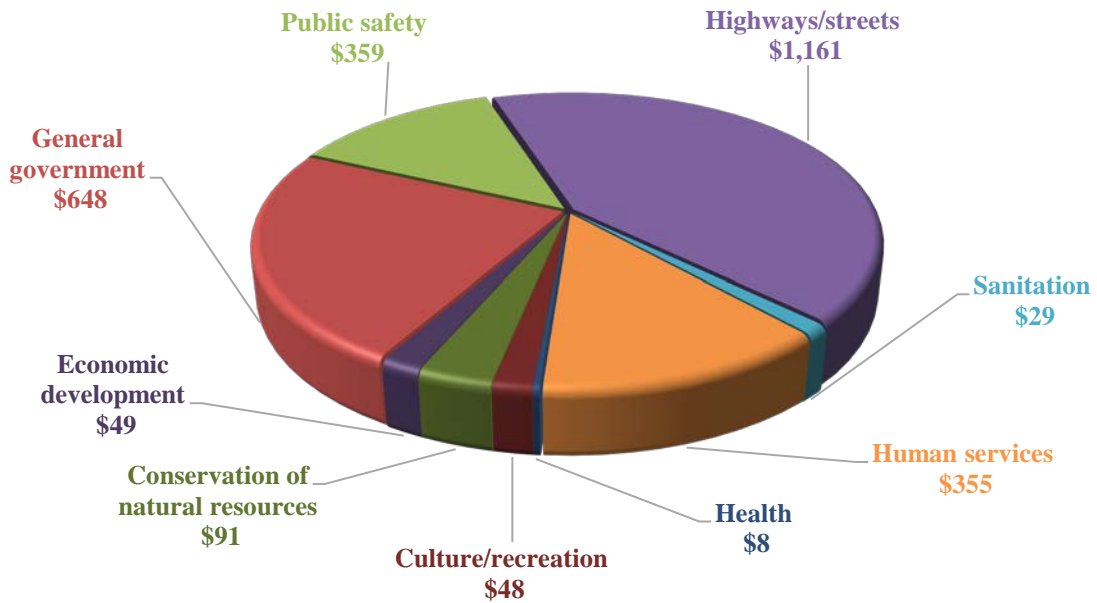
Expenses by Function



Program Revenues & Expenses



Expenditures Per Capita 4,436 Population as of July 1, 2016



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 2016, the County's governmental funds reported combined ending fund balances of \$7,226,379. Of this amount, approximately 5 percent constitutes non-spendable fund balance, 25 percent constitutes legally or contractually restricted fund balance, 57 percent constitutes specifically assigned fund balance, and 13 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 \$4,536,271. The General Fund's non-spendable fund balance was \$25,300, the restricted fund balance was \$682,423, the assigned fund balance was \$1,335,218, and unassigned fund balance was \$2,493,330. 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 2016. Unrestricted fund balance represents 94 percent of total General Fund expenditures, while total fund balance represents 110 percent of that same amount.

In 2016, the fund balance amount in the General Fund decreased by \$394,993, primarily due to capital expenditures for a replacement generator for the courthouse and enhanced 911 equipment purchases, neither of which were budgeted or levied for.

The fund balance of the Road and Bridge Special Revenue Fund increased by \$289,280 in 2016 due to actual equipment purchases being less than what was budgeted and levied for.

The fund balance of the Social Services Special Revenue Fund increased \$152,468 from the prior year due to an unplanned increase in intergovernmental revenue.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were amendments to the original budgeted revenues and expenditures as approved for 2016, primarily for the Aquatic Invasive Species Act grant. Actual revenues were more than overall budgeted revenues by \$208,896, primarily as a result of an increased intergovernmental revenue. Actual expenditures were greater than overall budgeted expenditures by \$339,236 as a result of capital expenditures for a replacement generator for the courthouse and enhanced 911 equipment purchases, neither of which were budgeted or levied for.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2016 amounted to \$59,412,740 (net of accumulated depreciation). The total decrease in the County's investment in capital assets for the current fiscal year was approximately 2 percent. This was primarily due to the depreciation of the County's highway infrastructure.

	Governmental Activities	
	2016	2015
Land	\$ 1,578,672	\$ 190,821
Construction in progress	1,713,109	2,202,174
Infrastructure	53,809,326	55,638,131
Buildings and improvements	1,176,986	1,463,732
Machinery and equipment	1,134,647	1,537,699
Total capital assets	\$ 59,412,740	\$ 61,032,557

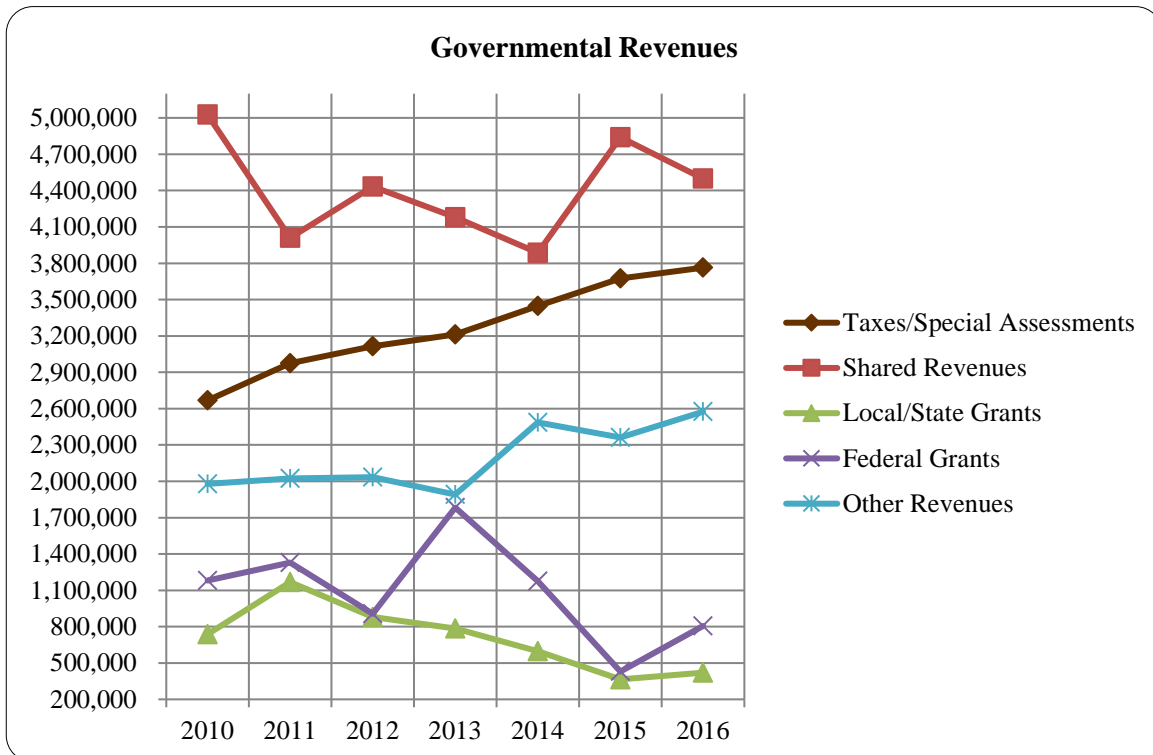
Additional information on the County’s capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, Kittson County had no long-term debt. The North Kittson Rural Water System had bonds outstanding in the amount of \$595,000, for which the County has no pledged obligation other than special assessments.

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 5.0 percent as of December, 2016. This is higher than the statewide rate of 4.0 percent and higher than the national average rate of 4.5 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, 2016 was 4,436, a decrease of 116 since 2010. This ranks Kittson County 84th of 87 in the State of Minnesota.
- On December 8, 2016, Kittson County set its 2017 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, 2016**

	<u>Primary Government</u> Governmental Activities	<u>Discretely</u> Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 7,588,516	\$ 414,761
Investments	140,000	1,459,493
Taxes receivable - prior	87,801	-
Special assessments receivable - current	-	5,798
Special assessments receivable - prior	572	14,107
Accounts receivable	25,713	59,277
Accrued interest receivable	43,118	680
Due from other governments	1,255,434	441,970
Surcharge receivable	-	6,380
Inventories	350,366	-
Special assessments receivable - noncurrent	-	483,829
Capital assets		
Non-depreciable	3,291,781	109,045
Depreciable - net of accumulated depreciation	56,120,959	9,499,641
	\$ 68,904,260	\$ 12,494,981
<u>Deferred Outflows of Resources</u>		
Related to pensions	\$ 2,935,625	\$ 90,915
<u>Liabilities</u>		
Accounts payable	\$ 275,633	\$ 11,078
Salaries payable	155,641	-
Accrued payroll taxes	-	8,921
Contracts payable	430,380	-
Due to other governments	90,021	7,841
Customer deposits	-	11,970
Advance County State Aid Highway Allotment	142,340	-
Long-term liabilities		
Due within one year	171,987	109,215
Due in more than one year	5,836,167	753,977
	\$ 7,102,169	\$ 903,002
<u>Deferred Inflows of Resources</u>		
Related to pensions	\$ 581,542	\$ 13,591
<u>Net Position</u>		
Net investment in capital assets	\$ 59,412,740	\$ 9,517,420
Amounts restricted for		
General government	330,562	-
Public safety	290,923	-
Highways and streets	1,766,773	-
Conservation of natural resources	60,938	-
Equipment replacement	-	1,389,193
Debt service	-	100,364
Unrestricted amounts	2,294,238	662,326
	\$ 64,156,174	\$ 11,669,303

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Expenses	Fees, Charges, Fines and Other	Program Revenues Operating Grants and Contributions
<u>Functions/Programs</u>			
Primary Government			
Governmental activities			
General government	\$ 2,873,611	\$ 734,362	\$ 8,332
Public safety	1,590,408	33,500	327,257
Highways and streets	5,150,572	665,674	1,888,150
Sanitation	127,375	27,546	323,104
Human services	1,572,564	188,559	694,844
Health	34,736	-	39,500
Culture and recreation	214,246	-	-
Conservation of natural resources	405,378	94,815	53,026
Economic development	218,920	-	-
Total Primary Government	\$ 12,187,810	\$ 1,744,456	\$ 3,334,213
Component Unit			
North Kittson Rural Water System	\$ 796,667	\$ 671,504	\$ -

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 Changes in Net Position		
Capital Grants and Contributions	Primary Government Governmental Activities	Discretely Presented Component Unit
\$ -	\$ (2,130,917)	\$ -
-	(1,229,651)	-
2,692,762	96,014	-
-	223,275	-
-	(689,161)	-
-	4,764	-
-	(214,246)	-
-	(257,537)	-
-	(218,920)	-
\$ 2,692,762	\$ (4,416,379)	\$ -
\$ 101,219	\$ -	\$ (23,944)
	\$ 3,659,056	\$ -
	276,257	1,181
	191,801	-
	127,326	-
	119,029	3,305
	\$ 4,373,469	\$ 4,486
	\$ (42,910)	\$ (19,458)
	\$ 66,628,097	\$ 11,688,761
	(2,429,013)	-
	\$ 64,199,084	\$ 11,688,761
	\$ 64,156,174	\$ 11,669,303

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	General Fund	Special Revenue Funds		Other	Total
		Road and Bridge	Social Services	Governmental Funds (Statement 1)	
<u>Assets</u>					
Assets					
Cash and pooled investments	\$ 4,532,428	\$ 685,196	\$ 1,659,311	\$ 711,581	\$ 7,588,516
Investments	100,000	-	40,000	-	140,000
Taxes receivable - prior	55,040	15,591	17,006	164	87,801
Special assessments receivable - prior	-	-	-	572	572
Accounts receivable	11,765	13,948	-	-	25,713
Accrued interest receivable	43,112	-	6	-	43,118
Due from other funds	517	-	-	-	517
Due from other governments	46,637	1,103,841	104,182	774	1,255,434
Inventories	-	350,366	-	-	350,366
Advances to other funds	25,300	-	-	-	25,300
Total Assets	\$ 4,814,799	\$ 2,168,942	\$ 1,820,505	\$ 713,091	\$ 9,517,337
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 140,910	\$ 110,689	\$ 18,734	\$ 5,300	\$ 275,633
Salaries payable	85,387	44,223	26,031	-	155,641
Contracts payable	-	430,380	-	-	430,380
Due to other funds	-	-	145	372	517
Due to other governments	22,724	3,837	61,892	1,568	90,021
Advance County State Aid Highway Allotment	-	142,340	-	-	142,340
Advances from other funds	-	-	-	25,300	25,300
Total Liabilities	\$ 249,021	\$ 731,469	\$ 106,802	\$ 32,540	\$ 1,119,832
Deferred Inflows of Resources					
Taxes	\$ 29,507	\$ 10,193	\$ 11,462	\$ 164	\$ 51,326
Special assessments	-	-	-	572	572
County State Aid Highway Allotment	-	1,119,228	-	-	1,119,228
Total Deferred Inflows of Resources	\$ 29,507	\$ 1,129,421	\$ 11,462	\$ 736	\$ 1,171,126
Fund Balances					
Non-spendable	\$ 25,300	\$ 350,366	\$ -	\$ -	\$ 375,666
Restricted	682,423	628,623	-	487,596	1,798,642
Assigned	1,335,218	142,340	1,702,241	209,515	3,389,314
Unassigned	2,493,330	(813,277)	-	(17,296)	1,662,757
Total Fund Balances	\$ 4,536,271	\$ 308,052	\$ 1,702,241	\$ 679,815	\$ 7,226,379
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 4,814,799	\$ 2,168,942	\$ 1,820,505	\$ 713,091	\$ 9,517,337

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016**

Fund balances - total governmental funds (Exhibit 3)	\$	7,226,379
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		59,412,740
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.</p>		1,171,126
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
Compensated absences payable	\$ (474,101)	
Other post-employment benefits	(199,915)	(674,016)
<p>Net pension liability and related outflows/inflows of resources represent the allocation of the pension obligations of the statewide plans to the County. Such balances are not reported in the governmental funds:</p>		
Deferred outflows of resources related to pensions	\$ 2,935,625	
Deferred inflows of resources related to pensions	(581,542)	
Net pension liability	(5,334,138)	(2,980,055)
Net position of governmental activities (Exhibit 1)	\$	<u>64,156,174</u>

**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, 2016**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (74,316)

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

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

Expenditures for general capital assets and infrastructure	\$	3,345,157	
Current year depreciation		(1,980,444)	
Net book value of assets disposed		<u>(155,978)</u>	1,208,735

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 (576,825)

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	\$	(3,241)	
Inventories		61,402	
Other post-employment benefits		<u>(108,235)</u>	(50,074)

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.

(550,430)

Change in net position of governmental activities (Exhibit 2) \$ (42,910)

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2016**

	<u>Agency (Statement 3)</u>
<u>Assets</u>	
Cash and pooled investments	\$ <u>4,732,673</u>
<u>Liabilities</u>	
Accounts payable	\$ 246,119
Due to other governments	<u>4,486,554</u>
Total Liabilities	<u>\$ 4,732,673</u>

**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, 2016**

<u>Additions</u>	
Investment earnings	\$ 816
<u>Deductions</u>	
Distributions to participants	<u>600,816</u>
Change in net position	\$ (600,000)
Net Position--January 1	<u>600,000</u>
Net Position--December 31	<u><u>\$ -</u></u>

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

D. 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 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.

E. 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. Property taxes are considered to be susceptible to accrual if they are collected within 60 days after the end of the current period. 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. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met and are available.

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)

F. 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, 2016, 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 2016 were \$118,930. Total investment earnings were \$119,029.

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).

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. 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.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources 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. The pension liability is liquidated through the General Fund and other governmental funds that have personnel services.

8. Net Position and Fund Balance

Net position in the government-wide statements is classified in the following categories:

Net investment in capital assets – represents capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or net investment of capital assets.

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.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

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

8. Net Position and Fund Balance (Continued)

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

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

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, 2016.

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 deferred outflows/inflows of resources 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 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.

II. Stewardship, Compliance, and Accountability

A. Prior Period Adjustments

The County Board changed their capitalization threshold from \$5,000 to \$25,000. The Office of the State Auditor determined that all assets previously capitalized under the old threshold and the related accumulated depreciation should be removed from capital asset reporting. The January 1, 2016 depreciable and non-depreciable capital assets decreased by a total of \$4,226,217, and accumulated depreciation was also adjusted by \$1,397,665 to correct the prior year overstatement. The total effect on net position was a decrease of \$2,828,552, as disclosed in note II.B.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

II. Stewardship, Compliance, and Accountability

A. Prior Period Adjustments (Continued)

The County implemented the provisions of GASB statements related to pension reporting in 2015. Employees of the Mar-Kit landfill were erroneously included in the County's reporting for net pension liability, deferred inflows of resources, and deferred outflows of resources. The January 1, 2016 pension related amounts were adjusted to reflect the elimination of the Mar-Kit Landfill amounts. The total effect on net position was an increase of \$399,539.

B. Restatement of Net Position

Net Position, January 1, 2016, as previously reported		\$ 66,628,097	
Prior period adjustments			
Capital assets (net)		(2,828,552)	
Net pension liability	\$ 407,035		
Deferred outflows of resources	(53,772)		
Deferred inflows of resources	46,276	399,539	
Net Position, January 1, 2016, as restated		<u>\$ 64,199,084</u>	

C. 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.

D. Tax Abatement Programs

The County has two tax abatement programs, both of which are a part of the County's business subsidy program.

On August 2, 2016, the Kittson County Board of Commissioners approved an economic development tax abatement pursuant to Minnesota Statute §§ 469.1812-.1815 to reimburse a portion of the costs incurred to construct an agribusiness facility in Skane Township by the Hallock Coop Elevator Co. The abatement period is five (5) years and shall not exceed \$40,000 per year in years 1-3 and \$20,000 per year in years 4-5. Total property taxes to be abated will not exceed \$160,000. The abatement will begin with the 2017 taxes payable in 2018 and end with the 2021 taxes payable in 2022. The project is expected to create one full time and an unknown number of part time positions. As of December 31, 2016, no county property taxes had been abated.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

II. Stewardship, Compliance, and Accountability

D. Tax Abatement Programs (Continued)

On December 20, 2011 the Kittson County Board of Commissioners approved an economic development tax abatement pursuant to Minnesota Statute §§ 469.1812-.1815 to reimburse a portion of the costs incurred to construct a canola processing facility in Skane Township by PICO Northstar Hallock LLC. The abatement period is ten (10) years and shall be for 100% of the county property taxes in years 1-7 and 50% of the county property taxes in years 8-10. Total property taxes to be abated are estimated to be \$634,803. The abatement will begin with the 2010 taxes payable in 2011 and end with the 2019 taxes payable in 2020. The project is expected to create twenty-five (25) full time positions. As of December 31, 2016, \$520,736.96 in county property taxes had been abated.

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

Reconciliations of the County's total deposits and investments to the basic financial statements, as of December 31, 2016, are reported as follows:

	Primary Government	Discretely Presented Component Unit
Government-wide statement of net position		
Cash and pooled investments	\$ 7,588,516	\$ 414,761
Investments	140,000	1,459,493
Statement of fiduciary net position		
Cash and pooled investments	4,732,673	-
Total cash and investments	<u>\$ 12,461,189</u>	<u>\$ 1,874,254</u>
Cash on hand	\$ 1,800	\$ -
Checking accounts	(254,671)	414,761
Savings accounts	1,012,605	383,830
Certificates of deposit	1,340,000	1,075,663
Investments	<u>10,361,455</u>	<u>-</u>
Total deposits, cash on hand, and investments	<u>\$ 12,461,189</u>	<u>\$ 1,874,254</u>

Deposits

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

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

Deposits

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's investment policy provides that full collateralization will be required on all demand deposit accounts. As of December 31, 2016, the County's and the discretely presented component units deposits were not exposed to custodial credit risk.

Investments

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

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

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County's investment policy provides for investment diversification to eliminate the risk of loss as a means of managing its exposure to fair value losses arising from increasing interest rates.

At December 31, 2016, the County had the following investments and maturities:

	Fair Value	Less Than 1 Year	1-5 Years	5+ Years
Certificates of Deposit	\$ 6,707,349	\$ 2,501,845	\$ 4,205,504	\$ -
Money Markets	622,371	622,371	-	-
Municipal Bonds	3,031,735	98,431	1,948,751	984,553
Total Investments	<u>\$ 10,361,455</u>	<u>\$ 3,222,647</u>	<u>\$ 6,154,255</u>	<u>\$ 984,553</u>
	100%	31%	59%	10%

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, 2016, is as follows:

	Moody's Rating	Fair Value
Negotiable Certificates of Deposit	N/A	\$ 6,707,349
Municipal Bonds	N/A	3,031,735
Money Markets	N/A	622,371
		<u>\$ 10,361,455</u>

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.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

Custodial Credit Risk (Continued)

At December 31, 2016, the following investments held by the County's agent in the County's name may be subject to custodial credit risk:

Negotiable Certificates of Deposit	\$	5,745,605
Municipal Bonds		2,467,968
Money Market		550,851
		550,851
	\$	8,764,424

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 policy is to minimize Concentration of Credit Risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. This will be based on applicable opinion units.

At December 31, 2016, the following County investments were subject to concentration of credit risk:

Investment	Concentration of Credit Risk	
	Fair Value	Concentration Percentage
Certificates of Deposit	\$ 6,707,349	64%
Money Markets	622,371	6%
Municipal Bonds	3,031,735	30%

Fair Value Measurement

The County measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and;
- Level 3: Unobservable inputs.

At December 31, 2016, the County had the following recurring fair value measurements:

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

Fair Value Measurement (Continued)

	December 31, 2016	Fair Value Measurements Using	
		Quotes Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments by fair value level			
Municipal Bonds	\$ 3,031,735	\$ -	\$ 3,031,735
Money Markets	622,371	622,371	-
Negotiable Certificates of Deposit	6,707,349	-	6,707,379
Total Investments	\$ 10,361,455	\$ 622,371	\$ 9,739,114

All Level 2 debt securities are valued using a market approach based on the securities' relationship to benchmark quoted prices. The County had no Level 3 securities as of December 31, 2016.

2. Receivables

Receivables as of December 31, 2016, for the County's governmental activities, including any applicable allowances for uncollectible accounts, are as follows:

	Total Receivables
Taxes	\$ 87,801
Special assessments	572
Accounts	25,713
Accrued interest	43,118
Due from other governments	1,255,434
Total	\$ 1,412,638

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

Receivables as of December 31, 2016, for the discretely presented component unit, including any applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts	\$ 59,277	\$ -
Due from other governments	441,970	-
Restricted		
Accrued interest	680	-
Special assessments	503,734	483,829
Surcharge for debt repayment	6,380	-
Total	\$ 1,012,041	\$ 483,829

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

3. Capital Assets

Capital asset activity for the primary government for the year ended December 31, 2016, was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 1,578,672	\$ -	\$ -	\$ 1,578,672
Construction in progress	541,664	1,394,518	223,073	1,713,109
Total capital assets not depreciated	<u>\$ 2,120,336</u>	<u>\$ 1,394,518</u>	<u>\$ 223,073</u>	<u>\$ 3,291,781</u>
Capital assets being depreciated				
Infrastructure	\$ 76,103,238	\$ 1,487,579	\$ -	\$ 77,590,817
Buildings and improvements	3,429,220	33,011	-	3,462,231
Machinery and equipment	2,793,242	430,049	55,319	3,167,972
Total capital assets being depreciated	<u>\$ 82,325,700</u>	<u>\$ 1,950,639</u>	<u>\$ 55,319</u>	<u>\$ 84,221,020</u>
Less: accumulated depreciation for				
Infrastructure	\$ 22,298,298	\$ 1,483,193	\$ -	\$ 23,781,491
Buildings and improvements	2,111,830	267,948	94,533	2,285,245
Machinery and equipment	1,831,903	229,303	27,881	2,033,325
Total accumulated depreciation	<u>\$ 26,242,031</u>	<u>\$ 1,980,444</u>	<u>\$ 122,414</u>	<u>\$ 28,100,061</u>
Total capital assets, depreciated, net	<u>\$ 56,083,669</u>	<u>\$ (29,805)</u>	<u>\$ (67,095)</u>	<u>\$ 56,120,959</u>
Primary Government Capital Assets, Net	<u>\$ 58,204,005</u>	<u>\$ 1,364,713</u>	<u>\$ 155,978</u>	<u>\$ 59,412,740</u>

Construction in progress consists of the amounts uncompleted on road and bridge projects.

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

General government	\$ 238,949
Public safety	71,206
Highways and streets, including depreciation of infrastructure assets	<u>1,670,289</u>
Total Depreciation Expense	<u>\$ 1,980,444</u>

**KITTSON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Capital Assets (Continued)

Capital asset activity for the discretely presented component unit for the year ended December 31, 2016 was as follows:

Component Unit	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 108,045	\$ 1,000	-	\$ 109,045
Capital assets being depreciated				
Distribution system	\$ 10,023,142	-	-	\$ 10,023,142
Buildings and pumps	4,127,714	105,280	7,450	4,225,544
Machinery and equipment	214,776	40,864	23,371	232,269
Tower reconditioning	304,690	-	-	304,690
Total capital assets being depreciated	\$ 14,670,322	\$ 146,144	\$ 30,821	\$ 14,785,645
Less: accumulated depreciation for				
Distribution system	\$ 3,114,123	\$ 116,371	-	\$ 3,230,494
Buildings and pumps	1,657,874	109,930	4,979	1,762,825
Machinery and equipment	161,842	9,248	23,371	147,719
Tower reconditioning	125,646	15,234	-	140,880
Total accumulated depreciation	\$ 5,059,485	\$ 250,783	\$ 28,350	\$ 5,281,918
Total capital assets, depreciated, net	\$ 9,610,837	\$ (104,639)	\$ 2,471	\$ 9,503,727
Component Unit Capital Assets, Net	\$ 9,718,882	\$ (103,639)	\$ 2,471	\$ 9,612,722

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

Construction Contracts

The County has one active construction contract as of December 31, 2016. The contract includes the following:

	Spent-to-Date	Remaining Contracts
Governmental activities		
Highways and streets	\$ 1,037,274	\$ 89,398

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, 2016, 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	\$ 145	Reimbursement for services
General Fund	Unorganized Townships Special Revenue Fund	<u>372</u>	Reimbursement for services
Total Due To/From Other Funds		<u><u>\$ 517</u></u>	

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
General Fund	Ditch Special Revenue Fund	<u><u>\$ 25,300</u></u>	Cash flows

These advances will be paid back as funds become available.

Interfund Transfers

Interfund transfers for the year ended December 31, 2016 consisted of the following operating transfers:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
Forfeited Tax Special Revenue Fund	General Revenue Fund	<u><u>\$ 20,473</u></u>	To close Special Revenue Fund

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2016 were as follows:

Accounts	\$ 275,633
Salaries	155,641
Contracts	430,380
Due to other governments	<u>90,021</u>
Total Payables	<u><u>\$ 951,675</u></u>

All payable amounts are scheduled for payment during the subsequent year.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

3. 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 \$394,337 at December 31, 2016, is available to employees in the event of illness-related absences and is not paid to them at termination.

4. Changes in Long-Term Liabilities

Long-term liability for activity for the governmental activities for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Net OPEB Payable	\$ 91,680	\$ 108,235	\$ -	\$ 199,915	\$ -
Compensated Absences	470,860	321,500	318,259	474,101	171,987
Net Pension Liability	2,894,732	2,439,406	-	5,334,138	-
Long-Term Liabilities	<u>\$ 3,457,272</u>	<u>\$ 2,869,141</u>	<u>\$ 318,259</u>	<u>\$ 6,008,154</u>	<u>\$ 171,987</u>

5. Deferred Inflows of Resources

Deferred inflows of resources consist of special assessments, taxes, state grants, and interest not collected soon enough after year-end to pay liabilities of the current period, and other receivables received but not yet earned. Deferred inflows of resources at December 31, 2016, are summarized below by fund:

	Taxes	Special Assessments	County State Aid Highway Allotment	Total Unavailable
Major governmental funds				
General	\$ 29,507	\$ -	\$ -	\$ 29,507
Road and Bridge	10,193	-	1,119,228	1,129,421
Human Services	11,462	-	-	11,462
Unorganized Township	164	-	-	164
Ditch	-	572	-	572
Total	<u>\$ 51,326</u>	<u>\$ 572</u>	<u>\$ 1,119,228</u>	<u>\$ 1,171,126</u>

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. 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 \$3,088. The balance remaining as of December 31, 2016 is \$591,912.

Debt Service Requirements

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

Year Ending December 31	General Obligation Water System Revenue Crossover Refunding Bonds, Series 2011A	
	Principal	Interest
2017	95,000	16,507
2018	95,000	14,134
2019	100,000	11,758
2020	100,000	9,106
2021	100,000	6,308
2022	105,000	3,306
	\$ 595,000	\$ 61,119
Less: Bond discount	(3,088)	-
Total	\$ 591,912	\$ 61,119

Changes in Long-Term Liabilities

Long-term liability activity for the discretely presented component unit for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Refunding Bonds	\$ 65,000	\$ -	\$ 65,000	\$ -	\$ -
G.O. Water Revenue Crossover Refunding Bonds, Series 2011A	685,000	-	90,000	595,000	95,000
Less: Bond discounts	(4,722)	-	(1,634)	(3,088)	(514)
Compensated Absences	42,553	27,798	26,417	43,934	14,215
Net pension liability	129,563	97,783	-	227,346	-
Long-Term Liabilities	\$ 917,394	\$ 125,581	\$ 179,783	\$ 863,192	\$ 108,701

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds (Continued)

D. Fund Balances

Fund balances at year-end December 31, 2016, were as follows:

Fund Balances	General	Road and Bridge	Social Services	Other Governmental Funds	Total Governmental Funds
Non-spendable					
Advances to other funds	\$ 25,300	\$ -	\$ -	\$ -	\$ 25,300
Inventories	-	350,366	-	-	350,366
Total Nonspendable	<u>\$ 25,300</u>	<u>\$ 350,366</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 375,666</u>
Restricted for					
Conservation of natural resources	\$ -	\$ -	\$ -	\$ 487,596	\$ 487,596
Corrections supervision	7,675	-	-	-	7,675
County State Aid Highway Allotment	-	505,205	-	-	505,205
DWI assessment	5,495	-	-	-	5,495
Enhanced 911	252,400	-	-	-	252,400
Handgun permits	20,490	-	-	-	20,490
Help America Vote Act	82,852	-	-	-	82,852
Law library	1,872	-	-	-	1,872
Missing heirs	6,320	-	-	-	6,320
Pit restoration	-	123,418	-	-	123,418
Probation	1,640	-	-	-	1,640
Recorder's equipment	103,665	-	-	-	103,665
SCORE	54,394	-	-	-	54,394
Sheriff's contingent fund	1,827	-	-	-	1,827
Technology	132,856	-	-	-	132,856
Vehicle seizures	1,396	-	-	-	1,396
Victim assistance	2,997	-	-	-	2,997
Water planning	6,544	-	-	-	6,544
Total restricted	<u>\$ 682,423</u>	<u>\$ 628,623</u>	<u>\$ -</u>	<u>\$ 487,596</u>	<u>\$ 1,798,642</u>
Assigned to					
Buildings and grounds	\$ 749,520	\$ -	\$ -	\$ -	\$ 749,520
Capital outlay	150,000	-	-	-	150,000
Data processing	250,490	-	-	-	250,490
Highways and streets	-	142,340	-	-	142,340
Public safety	185,208	-	-	-	185,208
Social Services	-	-	1,702,241	-	1,702,241
Unorganized townships	-	-	-	209,515	209,515
Total assigned	<u>\$ 1,335,218</u>	<u>\$ 142,340</u>	<u>\$ 1,702,241</u>	<u>\$ 209,515</u>	<u>\$ 3,389,314</u>
Unassigned	<u>\$ 2,493,330</u>	<u>\$ (813,277)</u>	<u>\$ -</u>	<u>\$ (17,296)</u>	<u>\$ 1,662,757</u>
Total Fund Balances	<u><u>\$ 4,536,271</u></u>	<u><u>\$ 308,052</u></u>	<u><u>\$ 1,702,241</u></u>	<u><u>\$ 679,815</u></u>	<u><u>\$ 7,226,379</u></u>

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

IV. Other Post-Employment Benefits (OPEB)

A. 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.

B. 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 2016, there were approximately 71 participants in the plan, with 7 retirees.

C. Annual OPEB Cost and Net OPEB Obligation

Prior to 2015, the County's annual other post-employment benefit (OPEB) cost (expense) was calculated based on the *annual required contribution of the employer* (ARC). The County had 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. For the first time, in 2015, Kittson County used actuarial assistance in the preparation of the other postemployment benefits liability and disclosure information using the alternative measurement method. 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	\$	42,314
Interest on net OPEB obligation		7,516
Adjustments to Annual Required Contribution		<u>(10,656)</u>
Annual OPEB cost (expense)	\$	39,174
Contributions made		<u>(27,169)</u>
Increase in net OPEB obligation	\$	12,005
Net OPEB Obligation - January 1, 2016		<u>187,910</u>
Net OPEB Obligation - December 31, 2016	\$	<u><u>199,915</u></u>

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

IV. Other Post-Employment Benefits (OPEB)

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost for December 31, 2016, was \$39,174. The percentage of annual OPEB cost contributed to the plan was (2) percent, and the net OPEB obligation for 2016 was \$199,915. For the required three-year trend information, refer to the Required Supplementary Information.

D. Fund Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial accrued liability for benefits was \$365,032, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$365,032. The covered payroll (annual payroll of active employees covered by the plan) was \$3,096,721, and the ratio of the UAAL to the covered payroll was 11.78 percent.

E. Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve 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 health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer 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 – Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, will present 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.

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 cost between the employer and plan members to that point. The actuarial 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.

In the January 1, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The annual health care cost trend is 7.25 percent initially, reduced by decrements to an ultimate rate of 5.00 percent over 9 years. Both rates included a 2.50 percent inflation assumption. The UAAL is being amortized as a level dollar amount over 30 years on a closed basis. The remaining amortization period at December 31, 2015 was 30 years.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans

A. Plan Description

Kittson County participates 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 Plan (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of Kittson County and of the North Kittson Rural Water System are covered by the General Employees Plan. General Employees Plan 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 participate in the Coordinated Plan.

2. Public Employees Police and Fire Plan (Police and Fire Plan (accounted for in the Police and Fire Fund))

The Police and Fire Plan, 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 Police and Fire Plan also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA.

3. Local Government Correctional Plan (Correctional Plan (accounted for in the Correctional Fund))

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.

B. 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.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans

B. Benefits Provided (Continued)

1. General Employees Retirement Plan Benefits

General Employees Plan 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 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For 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 for unreduced Social Security benefits capped at 66.

2. Public Employees Police and Fire Plan Benefits

Benefits for Police and fire Plan members first hired after June 30, 2010 but before July 1, 2014 vest a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014 vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. For Police and Fire Plan 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.

3. Local Government Correctional Fund Benefits

Benefits for Correctional Plan members first hired after June 30, 2010 vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. The annuity accrual rate is 1.9 percent of average salary for each year of service in that plan. For Correctional Plan 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.

C. Contributions

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

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans

C. Contributions (Continued)

1. General Employees Retirement Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2016. Kittson County and The North Kittson Rural Water System were required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2016. Kittson County's contributions to the General Employees Fund for the year ended December 31, 2016, was \$180,969. The North Kittson Rural Water System contributions to the General Employees Fund for the year ended December 31, 2016, was \$14,722. Contributions for both Kittson County and The North Kittson Rural Water System were equal to the required contributions as set by state statute.

2. Public Employees Police and Fire Fund Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary in calendar year 2016. Kittson County was required to contribute 16.20 percent of pay for members in calendar year 2016. Kittson County's contributions to the Police and Fire Fund for the year ended December 31, 2016, were \$62,310. Kittson County's contributions were equal to the required contributions as set by state statute.

3. Local Government Correctional Fund Contributions

In calendar year 2016 plan members were required to contribute 5.83 percent of their annual covered salary. Kittson County was required to contribute 8.75 percent of pay for plan members in calendar year 2016. The County's contributions to the Correctional Fund for the year ended December 31, 2016 were \$29,920. The County's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. General Employees Retirement Fund Pension Costs

At December 31, 2016, Kittson County reported a liability of \$3,180,897, and the North Kittson Rural Water System reported a liability of \$227,346, for their proportionate share of the General Employees Fund's net pension liability. Kittson County and The North Kittson Water System net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016.

The State of Minnesota considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with Kittson County totaled \$12,383, and the North Kittson Rural Water System totaled \$2,931. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the date. Kittson County's proportion share was .0392 percent which was an increase of .0008 percent from its proportion measured as of June 30, 2015. The North Kittson

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans

D. Pension Costs

1. General Employees Retirement Fund Pension Costs (Continued)

Rural Water System's proportion share was .0028 percent, which was an increase of .0003 percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, Kittson County recognized pension expense of \$451,637, and the North Kittson Rural Water System recognized pension expense of \$92,504 for their proportionate share of the General Employees Plan's pension expense. In addition, Kittson County recognized an additional \$12,383 as pension expense (and grant revenue) and the North Kittson Rural Water System recognized an additional \$874 as pension expense for their proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2016, Kittson County reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 256,956
Changes in actuarial assumptions	622,822	-
Difference between projected and actual investment earnings	600,694	-
Changes in proportion	32,261	83,827
Contributions paid to PERA subsequent to the measurement date	<u>90,577</u>	<u>-</u>
Total	<u>\$ 1,346,354</u>	<u>\$ 340,783</u>

**KITTSON COUNTY
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans

D. Pension Costs

1. General Employees Retirement Fund Pension Costs (Continued)

At December 31, 2016, North Kittson Rural Water System reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 17,297
Changes in actuarial assumptions	48,872	-
Difference between projected and actual investment earnings	24,913	-
Changes in proportion	6,964	17,169
Contributions paid to PERA subsequent to the measurement date	7,549	-
Total	<u>\$ 88,298</u>	<u>\$ 34,466</u>

\$90,577 reported as deferred outflows of resources related to pensions resulting from Kittson County's contributions, and \$7,549 related to the North Kittson Rural Water System'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	
	Kittson County	North Kittson Rural Water System
2017	\$ 236,062	\$ 17,386
2018	236,061	12,380
2019	327,972	21,587
2020	114,900	8,212
2021	-	-

2. Public Employees Police and Fire Fund Pension Costs

At December 31, 2016, Kittson County reported a liability of \$1,605,270 for its proportionate share of the Police and Fire Fund'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, 2015, through June 30, 2016, relative to the total employer contributions received from all PERA's participating employers.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans

C. Pension Costs

2. Public Employees Police and Fire Fund Pension Costs (Continued)

At June 30, 2016, Kittson County's proportion was .040 percent which was a decrease of .002 percent from its proportion measured as of June 30, 2015.

There were no provision changes during the measurement period.

For the year ended December 31, 2016, Kittson County recognized pension expense of \$269,172 for its proportionate share of the Police and fire Plan's pension expense. Kittson County also received no amount for the year ended December 31, 2016 as pension expense (and an offsetting reduction of net pension liability) for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and fire Fund. Legislation passed in 2013 required the State of Minnesota begin contribution \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

As of December 31, 2016, Kittson County reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 187,103
Changes in actuarial assumptions	883,450	-
Difference between projected and actual investment earnings	247,944	-
Changes in proportion	-	47,738
Contributions paid to PERA subsequent to the measurement date	<u>31,530</u>	<u>-</u>
Total	<u>\$ 1,162,924</u>	<u>\$ 234,841</u>

\$31,530 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:

<u>Year ended December 31:</u>	<u>Pension Expense Amount</u>
2017	\$ 192,370
2018	192,370
2019	192,369
2020	171,583
2021	147,861

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans

C. Pension Costs (Continued)

3. Local Government Correctional Plan Pension Costs

At December 31, 2016, the County reported a liability of \$547,971 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was .150% which remains unchanged from its proportion measured as of June 30, 2015.

There were no provision changes during the measurement period.

For the year ended December 31, 2016 the County recognized pension expense of \$152,895 for its proportionate share of the Correctional Plan's pension expense.

At December 31, 2016, the County reported its proportionate share of the Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 429	\$ 5,919
Changes in actuarial assumptions	349,124	-
Difference between projected and actual investment earnings	61,567	-
Contributions paid to PERA subsequent to the measurement date	<u>15,226</u>	<u>-</u>
Total	<u>\$ 426,346</u>	<u>\$ 5,919</u>

\$15,226 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:

2017	\$	130,158
2018		130,159
2019		133,116
2020		11,768
2021		-

**KITTSON COUNTY
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans (Continued)

D. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan for males and females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for all future years for the General Employees Plan and Police and Fire Plan, and 2.5 percent for all years for the Correctional Plan

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for Police and fire Plan was for the period July 1, 2004 through June 30, 2009. Experience studies have not been prepared for the Correctional Plan, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Fund

1. The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
2. The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
3. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.5% for inflation.

Public Employees Police and Fire Fund

1. The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
2. The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
3. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans

D. Actuarial Assumptions (Continued)

Local Government Correctional Fund

1. The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.31%.

2. The assumed future salary increases payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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 geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real 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%

E. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current pan members. 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.

In the Police and Fire Fund and the Correctional Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056 and June 30, 2058 respectively. Beginning in fiscal years ended June 30, 2057 for the Police and Fire Fund and June 30, 2059 for the Correctional Fund, when projected benefit payments exceed the funds projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the Police and Fire Fund and 5.31% for the Correctional Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% thereafter.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans (Continued)

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:

Sensitivity of Net Pension Liability at Current Single Discount Rate
General Employees Fund

Proportionate share of Net Pension Liability

Kittson County	1% Decrease in Discount Rate (6.50%)	Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
Kittson County	\$ 4,517,816	\$ 3,180,897	\$ 2,079,639
North Kittson Rural Water System	\$ 322,899	\$ 227,346	\$ 148,367

Sensitivity of Net Pension Liability at Current Single Discount Rate
Police and Fire Fund

Kittson County	1% Decrease in Discount Rate (4.60%)	Discount Rate (5.60%)	1% Increase in Discount Rate (6.60%)
Proportionate share of Net Pension Liability	\$ 2,247,164	\$ 1,605,270	\$ 1,080,793

Sensitivity of Net Pension Liability at Current Single Discount Rate
Correctional Fund

Kittson County	1% Decrease in Discount Rate (4.31%)	Discount Rate (5.31%)	1% Increase in Discount Rate (6.31%)
Proportionate share of Net Pension Liability	\$ 825,075	\$ 547,971	\$ 331,638

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.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

VI. Public Employees 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 2016 were:

Contribution Amount		Percentage of Cover Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$ 3,799	\$ 3,799	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 and North Kittson Rural Water System, in connection with the normal conduct of its affairs, may be involved in various claims, judgments, and litigation. The County Attorney and the North Kittson Rural Water System Board estimates that the potential claims against the County and the North Kittson Rural Water System not covered by insurance resulting from such litigation would not materially affect the financial statements of the County or the North Kittson Rural Water System.

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.

**KITTSON 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 \$500,000 per claim in 2016 and 2017. 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.

North Kittson Rural Water System purchases commercial insurance to protect against losses relating to Workman's Compensation claims, liability claims, and property loss. There has been no significant reduction in insurance coverage, and no settlements in excess of such insurance coverage in the past the years.

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, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, 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 9th Avenue North, Moorhead, Minnesota 56560.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Karlstad Mobile Relay Station

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

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

The Karlstad Mobile Relay Station has no long-term debt. Financing is provided by contributions from each member county representing an equal share of annual expense. Kittson County did not contribute to the Karlstad Mobile Relay Station for the year ended December 31, 2016. 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 2016. 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.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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, Clearwater, Clay, Hubbard, Kittson, Lake of the Woods, Mahnommen, 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).

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, 2016. 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.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Northwestern Counties Data Processing Security Association

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

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

The Northwestern Counties Data Processing Security Association has no long-term debt. Financing is provided by state grants and appropriations from member counties when needed. Kittson County did not contribute to the Association for the year ended December 31, 2016. 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 County Auditor/Treasurer's Office, 213 Main Ave. 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, Cass, Clearwater, Kittson, Lake of the Woods, Marshall, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Waste Management Group is to cooperatively manage, handle, and transport household hazardous waste, provide public education on safe waste management, and provide for the disposition of non-recyclable household hazardous waste materials.

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

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Kittson County contributed \$4,913 to the Waste Management Group for the year ended December 31, 2016. 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, 213 Main Ave., Bagley, Minnesota 56621.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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, Lake of the Woods, Pennington, and Roseau Counties. The purpose of the Center is to provide rehabilitation and other services to juveniles under the jurisdiction of the court system. The offices of the Center are located in Bemidji, with satellite homes at various locations.

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

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

Quin County Community Health Service

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

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

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, 208 E. Colvin Ave., Warren, MN 56762 or the Health Service's Office, 136 W. Minnesota Ave., Newfolden, Minnesota 56738.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Williams Mobile Relay Station

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

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

The Williams Mobile Relay Station has no long-term debt. Financing is provided by contributions from each member county representing an equal share of annual expense. The County did not make a contribution to the Williams Mobile Relay Station in 2016. 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.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

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

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

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.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

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

E. Jointly-Governed Organizations

Kittson County Children's Collaborative (Continued)

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 2016, 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.

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 2016, the County contributed \$10,000 to help fund the operation of the EDA.

Minnesota Counties Computer Cooperative

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

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Becker, Beltrami, Clay, Clearwater, Itasca, Kittson, Lake 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.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations

Northwest Minnesota Council of Collaboratives (Continued)

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 2016, Kittson County paid \$3,038 in dues to the Council of Collaboratives.

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

Northwest Minnesota Multi-County Housing and Redevelopment Authority

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

Northwest Regional Library

The Northwest Regional Library was formed pursuant to Minnesota Statute, §§ 134.20 and 471.59, effective January 1, 1981, and includes Kittson, Marshall, Pennington, Red Lake, and Roseau Counties. Control of the Library is vested in the Northwest Regional Library Board which is composed of 16 members with staggered terms made up of the following: one member appointed by each board of county commissioners who may be a member of the Board of Commissioners, one member appointed by each participating city, and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. Kittson County appropriated \$63,000 to the Library for the year ended December 31, 2016.

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.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations

Northwest Workforce Service Area (Continued)

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

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

Roseau River Watershed District

The Roseau River Watershed District was formed pursuant to Minnesota Statute, § 103D.201, effective June 17, 1963, and includes land within Beltrami, Kittson, Lake of the Woods, 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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,312,825	\$ 2,312,825	\$ 2,202,339	\$ (110,486)
Licenses and permits	12,090	12,090	15,270	3,180
Intergovernmental	776,845	796,428	1,089,014	292,586
Charges for services	128,748	128,748	128,928	180
Fines and forfeitures	8,500	8,500	5,804	(2,696)
Investment earnings	100,250	100,250	118,930	18,680
Miscellaneous	170,140	170,140	177,682	7,542
Total Revenues	\$ 3,509,398	\$ 3,528,981	\$ 3,737,967	\$ 208,986
Expenditures				
Current				
General government				
Commissioners	\$ 178,829	\$ 181,818	\$ 182,519	\$ (701)
District court	30,000	30,000	44,691	(14,691)
Law library	5,000	5,000	2,028	2,972
County administration	432,499	432,499	464,762	(32,263)
County assessor	255,527	288,412	285,935	2,477
Elections	27,000	27,000	26,690	310
Professional services	15,500	15,500	13,059	2,441
Data processing	168,150	168,150	112,721	55,429
Attorney	95,788	95,788	96,523	(735)
Recorder	146,147	146,147	146,515	(368)
Planning and zoning	35,472	35,472	35,676	(204)
Surveyor	2,000	2,000	810	1,190
Buildings and grounds	224,732	224,896	255,552	(30,656)
GIS/LIS	4,000	4,000	4,163	(163)
Veterans service officer	32,319	39,819	42,345	(2,526)
Insurance	50,000	50,000	48,377	1,623
Other general government	66,718	66,718	85,244	(18,526)
Total general government	\$ 1,769,681	\$ 1,813,219	\$ 1,847,610	\$ (34,391)
Public safety				
Sheriff	\$ 801,524	\$ 801,524	\$ 748,627	\$ 52,897
Boat and water safety	500	500	-	500
Community corrections	231,236	231,236	209,009	22,227
Coroner	9,104	10,242	9,979	263
Enhanced 911	26,800	26,800	85,910	(59,110)
Emergency management	46,599	46,791	55,880	(9,089)
Fire protection	500	500	500	-
Local Emergency Planning Commission	1,000	1,000	346	654
Operation Stonegarden	58,165	58,165	35,554	22,611
Probation and parole	30,000	30,000	29,893	107
Transmission tower	6,500	6,500	4,799	1,701
Victim assistance	-	-	53	(53)
Other public safety	2,000	2,000	7,000	(5,000)
Total public safety	\$ 1,213,928	\$ 1,215,258	\$ 1,187,550	\$ 27,708

**KITTSON COUNTY
HALLOCK, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Sanitation				
Recycling	\$ 68,123	\$ 68,177	\$ 75,155	\$ (6,978)
Solid waste	8,816	8,842	10,684	(1,842)
Total sanitation	\$ 76,939	\$ 77,019	\$ 85,839	\$ (8,820)
Health				
Ambulance	\$ 26,640	\$ 26,640	\$ 26,640	\$ -
Hospice	7,500	7,500	7,500	-
Kittson wellness	1,550	1,550	596	954
Total health	\$ 35,690	\$ 35,690	\$ 34,736	\$ 954
Culture and recreation				
Historical society	\$ 56,540	\$ 56,540	\$ 56,540	\$ -
Regional library	63,000	63,000	63,000	-
Snowmobile and ski trails	-	-	94,206	(94,206)
Veterans organizations	500	500	500	-
Total culture and recreation	\$ 120,040	\$ 120,040	\$ 214,246	\$ (94,206)
Conservation of natural resources				
Agricultural inspection	\$ 11,000	\$ 11,000	\$ 11,000	\$ -
Agricultural society	22,500	22,500	22,500	-
Aquatic Invasive Species	25,206	55,055	16,478	38,577
County extension	114,003	114,003	110,009	3,994
Predator and weed control	2,600	2,600	2,425	175
Soil and water conservation	86,497	86,497	123,368	(36,871)
Water planning	20,898	20,898	35,959	(15,061)
Total conservation of natural resources	\$ 282,704	\$ 312,553	\$ 321,739	\$ (9,186)
Economic development				
Kittson Office of Economic Development	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
MN Red River Valley Development Authority	-	-	800	(800)
Tax abatement	106,000	106,000	208,120	(102,120)
Total economic development	\$ 116,000	\$ 116,000	\$ 218,920	\$ (102,920)
Total Current	\$ 3,614,982	\$ 3,689,779	\$ 3,910,640	\$ (220,861)

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Capital outlay				
General government	\$ 77,385	\$ 77,385	\$ 67,667	\$ 9,718
Public safety	26,500	26,500	154,593	(128,093)
Total capital outlay	\$ 103,885	\$ 103,885	\$ 222,260	\$ (118,375)
Total Expenditures	\$ 3,718,867	\$ 3,793,664	\$ 4,132,900	\$ (339,236)
Excess of Revenues Over (Under) Expenditures	\$ (209,469)	\$ (264,683)	\$ (394,933)	\$ (130,250)
Other Financing Sources (Uses)				
Transfers in	\$ 17,914	\$ 17,914	-	\$ (17,914)
Transfers out	20,886	20,886	(20,473)	(41,359)
Total Other Financing Sources (Uses)	\$ 38,800	\$ 38,800	\$ (20,473)	\$ (59,273)
Net Change in Fund Balance	\$ (170,669)	\$ (225,883)	\$ (415,406)	\$ (189,523)
Fund Balance - January 1	4,951,677	4,951,677	4,951,677	-
Fund Balance - December 31	\$ 4,781,008	\$ 4,725,794	\$ 4,536,271	\$ (189,523)

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 756,756	\$ 756,756	\$ 741,400	\$ (15,356)
Intergovernmental	5,484,983	5,484,983	5,203,868	(281,115)
Charges for services	597,125	597,125	607,172	10,047
Miscellaneous	57,450	57,450	15,734	(41,716)
Total Revenues	\$ 6,896,314	\$ 6,896,314	\$ 6,568,174	\$ (328,140)
Expenditures				
Current				
Highways and streets				
Administration	\$ 461,966	\$ 461,276	\$ 408,964	\$ 52,312
Engineering	393,986	393,986	426,471	(32,485)
Maintenance	1,323,724	1,323,724	1,122,061	201,663
Construction	3,955,906	3,955,906	1,736,723	2,219,183
Equipment maintenance and shop	544,055	544,055	355,363	188,692
Township roads	-	-	520,366	(520,366)
Total Current	\$ 6,679,637	\$ 6,678,947	\$ 4,569,948	\$ 2,108,999
Capital outlay				
Highways and streets	250,000	250,000	1,770,348	(1,520,348)
Total Expenditures	\$ 6,929,637	\$ 6,928,947	\$ 6,340,296	\$ 588,651
Net Change in Fund Balance	\$ (33,323)	\$ (32,633)	\$ 227,878	\$ 260,511
Fund Balance - January 1	18,772	18,772	18,772	-
Increase (decrease) in inventories	-	-	61,402	61,402
Fund Balance - December 31	\$ (14,551)	\$ (13,861)	\$ 308,052	\$ 321,913

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 746,416	\$ 746,416	\$ 721,306	\$ (25,110)
Intergovernmental	603,608	603,608	743,561	139,953
Charges for services	79,000	79,000	97,676	18,676
Miscellaneous	79,279	79,279	88,198	8,919
Total Revenues	\$ 1,508,303	\$ 1,508,303	\$ 1,650,840	\$ 142,537
Expenditures				
Current				
Human services				
Income maintenance	\$ 475,010	\$ 460,737	\$ 492,244	\$ (31,507)
Social services	981,095	1,047,566	1,006,128	41,438
Total Expenditures	\$ 1,456,105	\$ 1,508,303	\$ 1,498,372	\$ 9,931
Excess of Revenues Over (Under) Expenditures	\$ 52,198	\$ -	\$ 152,468	\$ 152,468
Fund Balance - January 1	1,549,773	1,549,773	1,549,773	-
Fund Balance - December 31	\$ 1,601,971	\$ 1,549,773	\$ 1,702,241	\$ 152,468

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 4

**SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016**

PRIMARY GOVERNMENT

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
January 1, 2015	\$ -	\$ 365,032	\$ 365,032	0%	\$ 3,096,721	11.8%

This schedule is intended to show information for three years. For the first time, in 2015, Kittson County used actuarial assistance in the preparation of the other postemployment benefits liability and disclosure information using the alternative measurement method. Due to significant differences in the amounts presented in previous years, only one year is presented. Additional years will be provided as the information is available.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 5

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016**

PRIMARY GOVERNMENT

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2015	\$ 39,503	\$ 19,826	50%	\$ 187,910
December 31, 2016	39,174	27,169	69%	199,915

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 6

**SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA
FOR THE YEAR ENDED DECEMBER 31, 2016**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2015	\$ 169,068	\$ 169,068	\$ -	\$ 2,254,240	7.5%
December 31, 2016	180,696	180,696	-	2,412,924	7.5%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2015	\$ 60,843	\$ 60,843	\$ -	\$ 375,571	16.2%
December 31, 2016	62,310	62,310	-	384,750	16.2%

PUBLIC EMPLOYEES CORRECTIONAL FUND PENSION PLAN

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
December 31, 2015	\$ 23,478	\$ 23,478	\$ -	\$ 268,318	8.75%
December 31, 2016	29,920	29,920	-	341,947	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, 2016**

GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.0462%	\$ 2,061,274	\$ -	\$ 2,061,274	\$ 2,220,800	92.82%	78.19%
June 30, 2016	0.0392%	\$ 3,180,897	\$ 12,383	\$ 3,193,280	\$ 2,350,040	135.36%	78.20%

PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN

Fiscal Year Ending	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability (Asset)	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.0420%	\$ 477,218	\$ -	\$ 477,218	\$ 388,286	122.90%	86.60%
June 30, 2016	0.0400%	\$ 1,605,270	\$ -	\$ 1,605,270	\$ 374,187	429.00%	86.60%

PUBLIC EMPLOYEES CORRECTIONAL FUND PENSION PLAN

Fiscal Year Ending	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability (Asset)	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Employer's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.1500%	\$ 23,190	\$ -	\$ 23,190	\$ 267,669	8.66%	96.95%
June 30, 2016	0.1500%	\$ 547,971	\$ -	\$ 547,971	\$ 298,617	183.50%	96.90%

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

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, 2016:

	Expenditures	Budget	Excess
General Fund			
General government			
Commissioners	\$ 182,519	\$ 181,818	\$ (701)
District court	44,691	30,000	(14,691)
County administration	464,762	432,499	(32,263)
Attorney	96,523	95,788	(735)
Recorder	146,515	146,147	(368)
Planning and zoning	35,676	35,472	(204)
Building and grounds	255,552	224,896	(30,656)
GIS/LIS	4,163	4,000	(163)
Veterans service officer	42,345	39,819	(2,526)
Other general government	85,244	66,718	(18,526)
Public Safety			
Enhanced 911	85,910	26,800	(59,110)
Emergency management	55,880	46,791	(9,089)
Victim assistance	53	-	(53)
Other public safety	7,000	2,000	(5,000)
Sanitation			
Recycling	75,155	68,177	(6,978)
Solid waste	10,684	8,842	(1,842)
Culture and recreation			
Snowmobile and ski trails	94,206	-	(94,206)
Conservation of natural resources			
Soil and water conservation	123,368	86,497	(36,871)
Water planning	35,959	20,898	(15,061)
Economic development			
MN Red River Valley Development Authority	800	-	(800)
Tax abatement	208,120	106,000	(102,120)
Capital outlay			
Public safety	154,593	26,500	(128,093)
Road and Bridge Special Revenue Fund			
Highways and streets			
Engineering	426,471	393,986	(32,485)
Township roads	520,366	-	(520,366)
Capital outlay			
Highways and streets	1,770,348	250,000	(1,520,348)
Social Services Special Revenue Fund			
Human services			
Income maintenance	492,244	460,737	(31,507)

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

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, withdrawal, and retirement tables were updated.
- The discount rate was changed to 4.00%.

The percentage of active employees who are assumed to be married was set to 85% for males and 65% for females, with males assumed to be three years older than females.

- The percentage of future retirees who are assumed to continue on the County's medical plan post-employment is 50%.
- The percentage of future spouses of retirees who are assumed to continue on the County's medical plan post-employment is 25%.

There have been no changes to the plan provisions since the last actuarial valuation. Currently, two 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.

A. General Employees Fund

1. 2016 Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

2. 2015 Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

3. 2015 Changes in Plan Provisions

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

B. Police and Fire Fund

1. 2016 Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2037 and 2.5 percent thereafter to 1.0 percent per year for all future years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate changed from 7.9 percent to 5.6 percent.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2. 2015 Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2037 and 2.5 percent per year thereafter.

3. 2015 Changes in Plan Provisions

- The post-retirement benefit increases to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.5 percent, to a fixed rate of 2.5 percent.

C. Local Government Correctional Fund

4. 2016 Changes in Actuarial Assumptions:

- The assumed investment return was changed from 7.9 percent per year to 7.5 percent per year. The single discount rate changed from 7.9 percent to 5.31 percent.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

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. This fund was closed in 2016 to be reported as an agency fund in the future.

The Health Insurance Special Revenue Fund is used to account for and report financial resources assigned to commercial health insurance. This fund was closed in 2016 to be reported as an agency fund in the future.

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, 2016**

	Special Revenue Funds		Total Nonmajor Special Revenue Funds (Exhibit 3)
	Ditch	Unorganized Townships	
<u>Assets</u>			
Cash and pooled investments	\$ 500,208	\$ 211,373	\$ 711,581
Taxes receivable - prior	-	164	164
Special assessments receivable - prior	572	-	572
Due from other governments	774	-	774
Total Assets	\$ 501,554	\$ 211,537	\$ 713,091
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 5,300	\$ -	\$ 5,300
Due to other funds	-	372	372
Due to other governments	82	1,486	1,568
Advances from other funds	25,300	-	25,300
Total Liabilities	\$ 30,682	\$ 1,858	\$ 32,540
Deferred Inflows of Resources			
Taxes	\$ -	\$ 164	\$ 164
Special assessments	572	-	572
Total Deferred Inflows of Resources	\$ 572	\$ 164	\$ 736
Fund Balances			
Restricted	\$ 487,596	\$ -	\$ 487,596
Assigned	-	209,515	209,515
Unassigned	(17,296)	-	(17,296)
Total Fund Balances	\$ 470,300	\$ 209,515	\$ 679,815
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 501,554	\$ 211,537	\$ 713,091

**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, 2016**

	Special Revenue Funds				Total Nonmajor Special Revenue Funds (Exhibit 5)
	Ditch	Forfeited Tax Sale	Health Insurance	Unorganized Townships	
Revenues					
Taxes	\$ -	\$ -	\$ -	\$ 31,286	\$ 31,286
Special assessments	67,245	-	-	-	67,245
Intergovernmental	-	-	-	36,488	36,488
Charges for services	773	-	-	-	773
Land and timber sales	-	25,697	-	-	25,697
Miscellaneous	-	746	590,126	-	590,872
Total Revenues	\$ 68,018	\$ 26,443	\$ 590,126	\$ 67,774	\$ 752,361
Expenditures					
Current					
General government	\$ -	\$ -	\$ 647,790	\$ -	\$ 647,790
Public safety	-	-	-	6,223	6,223
Highways and streets	-	-	-	75,361	75,361
Conservation of natural resources	82,059	657	-	-	82,716
Total Expenditures	\$ 82,059	\$ 657	\$ 647,790	\$ 81,584	\$ 812,090
Excess of Revenues Over (Under) Expenditures	\$ (14,041)	\$ 25,786	\$ (57,664)	\$ (13,810)	\$ (59,729)
Other Financing Sources (Uses)					
Transfers in	-	20,473	-	-	20,473
Net Change in Fund Balance	\$ (14,041)	\$ 46,259	\$ (57,664)	\$ (13,810)	\$ (39,256)
Fund Balance - January 1	484,341	(46,259)	57,664	223,325	719,071
Fund Balance - December 31	\$ 470,300	\$ -	\$ -	\$ 209,515	\$ 679,815

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special assessments	\$ 7,750	\$ 67,350	\$ 67,245	\$ (105)
Charges for services	-	-	773	773
Total Revenues	\$ 7,750	\$ 67,350	\$ 68,018	\$ 668
Expenditures				
Current				
Conservation of natural resources				
Administration	-	-	458	(458)
Maintenance and repairs	7,350	48,800	81,601	(32,801)
Total Expenditures	\$ 7,350	\$ 48,800	\$ 82,059	\$ (33,259)
Excess of Revenues Over (Under) Expenditures	\$ 400	\$ 18,550	\$ (14,041)	\$ (32,591)
Fund Balance - January 1	484,341	484,341	484,341	-
Fund Balance - December 31	\$ 484,741	\$ 502,891	\$ 470,300	\$ (32,591)

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 9

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Land and timber sales	\$ -	\$ 6,000	\$ 25,697	\$ 19,697
Expenditures				
Current				
Conservation of natural resources				
Forfeited land	-	10,500	657	9,843
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ (4,500)	\$ 25,786	\$ 30,286
Other Financing Sources (Uses)				
Transfers in	-	-	20,473	20,473
Net Change in Fund Balance	\$ -	\$ (4,500)	\$ 46,259	\$ 50,759
Fund Balance - January 1	(46,259)	(46,259)	(46,259)	-
Fund Balance - December 31	<u>\$ (46,259)</u>	<u>\$ (50,759)</u>	<u>\$ -</u>	<u>\$ 50,759</u>

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 10

**BUDGETARY COMPARISON SCHEDULE
HEALTH INSURANCE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ -	\$ 702,889	\$ 590,126	\$ (112,763)
Expenditures				
Current				
General government				
Insurance	-	702,889	647,790	55,099
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (57,664)	\$ (57,664)
Fund Balance - January 1	57,664	57,664	57,664	-
Fund Balance - December 31	<u>\$ 57,664</u>	<u>\$ 57,664</u>	<u>\$ -</u>	<u>\$ (57,664)</u>

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 11

**BUDGETARY COMPARISON SCHEDULE
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 31,800	\$ 31,800	\$ 31,286	\$ (514)
Intergovernmental	35,600	35,600	36,488	888
Total Revenues	\$ 67,400	\$ 67,400	\$ 67,774	\$ 374
Expenditures				
Current				
Public safety				
Fire protection	\$ 6,200	\$ 6,200	\$ 6,223	\$ (23)
Highways and streets				
Township roads	62,000	62,000	75,361	(13,361)
Total Expenditures	\$ 68,200	\$ 68,200	\$ 81,584	\$ (13,384)
Excess of Revenues Over (Under) Expenditures	\$ (800)	\$ (800)	\$ (13,810)	\$ (13,010)
Fund Balance - January 1	-	-	223,325	223,325
Fund Balance - December 31	\$ (800)	\$ (800)	\$ 209,515	\$ 210,315

**KITTSON COUNTY
HALLOCK, MINNESOTA**

FIDUCIARY FUNDS

The Mar-Kit Landfill Investment Trust Fund is used to account for the investments held by Kittson County for the Mar-Kit Landfill Joint Venture. This fund was closed in 2016 to be reported with the Agency Fund in the future.

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

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.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 33,560	\$ 5,800,644	\$ 5,810,087	\$ 24,117
<u>Liabilities</u>				
Due to other governments	\$ 33,560	\$ 5,800,644	\$ 5,810,087	\$ 24,117
 <u>FLEXIBLE BENEFITS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 6,191	\$ 25,300	\$ 22,978	\$ 8,513
<u>Liabilities</u>				
Accounts payable	\$ 6,191	\$ 25,300	\$ 22,978	\$ 8,513
 <u>HEALTH INSURANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 53,960	\$ -	\$ 53,960
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 53,960	\$ -	\$ 53,960
 <u>KITTSON COUNTY CHILDREN'S COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 19,199	\$ 9,188	\$ 16,703	\$ 11,684
<u>Liabilities</u>				
Accounts payable	\$ 19,199	\$ 9,188	\$ 16,703	\$ 11,684

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Balance January 1	Additions	Deductions	Balance December 31
<u>KITTSOON COUNTY ECONOMIC DEVELOPMENT AUTHORITY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 191,408	\$ 74,483	\$ 93,929	\$ 171,962
<u>Liabilities</u>				
Accounts payable	\$ 191,408	\$ 74,483	\$ 93,929	\$ 171,962
 <u>KITTSOON-MARSHALL RURAL WATER SYSTEM</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,852	\$ -	\$ -	\$ 1,852
<u>Liabilities</u>				
Due to other governments	\$ 1,852	\$ -	\$ -	\$ 1,852
 <u>MAR-KIT LANDFILL</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,357,344	\$ 3,457,758	\$ 1,550,873	\$ 4,264,229
<u>Liabilities</u>				
Due to other governments	\$ 2,357,344	\$ 3,457,758	\$ 1,550,873	\$ 4,264,229
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 20,296	\$ 1,990,065	\$ 2,029,485	\$ (19,124)
<u>Liabilities</u>				
Due to other governments	\$ 20,296	\$ 1,990,065	\$ 2,029,485	\$ (19,124)

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

***Statement 3
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 194,898	\$ 11,142,050	\$ 11,125,157	\$ 211,791
<u>Liabilities</u>				
Due to other governments	\$ 194,898	\$ 11,142,050	\$ 11,125,157	\$ 211,791
 <u>WATERSHED DITCH</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 97,000	\$ 93,311	\$ 3,689
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 97,000	\$ 93,311	\$ 3,689
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 22,650,448	\$ 20,742,523	\$ 1,907,925
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 162,931	\$ 133,610	\$ 29,321
Due to other governments	-	22,487,517	20,608,913	1,878,604
Total Liabilities	\$ -	\$ 22,650,448	\$ 20,742,523	\$ 1,907,925

OTHER SCHEDULES

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2016**

	Assets				Liabilities	
	Cash and Pooled Investments	Special Assessments Receivable - Prior	Due from Other Governments	Total Assets	Accounts Payable	Due to Other Governments
County Ditches						
1	\$ 45,456	\$ -	\$ -	\$ 45,456	\$ -	\$ -
4	9,142	9	-	9,151	-	-
8	12,340	-	-	12,340	-	-
9	5,879	-	-	5,879	-	-
11	9,839	-	-	9,839	-	-
12	1,511	-	-	1,511	-	-
13	53	-	-	53	-	-
14	8,499	-	-	8,499	-	-
15	3,939	2	-	3,941	-	-
16	43,394	-	-	43,394	-	-
17	15,612	-	-	15,612	-	-
18	11,567	-	-	11,567	-	-
19	586	-	-	586	-	-
20	5,589	-	-	5,589	-	-
21	14,389	-	-	14,389	-	-
22	26,376	-	-	26,376	-	-
23	1,741	2	-	1,743	-	-
25	6,939	-	-	6,939	-	-
26	11,895	45	-	11,940	-	-
27	25,631	-	-	25,631	-	-
28	17,223	-	-	17,223	-	-
29	20,820	-	-	20,820	4,000	-
30	1,411	-	-	1,411	-	-
31	22,196	47	-	22,243	-	-
33	7,235	-	-	7,235	-	-
Joint County Ditches						
31	2,823	-	-	2,823	-	-
32	5,158	-	-	5,158	-	-
33	11,572	-	-	11,572	-	-
State Ditches						
1	18,448	-	-	18,448	-	-
48R	5,397	45	-	5,442	-	-
50	12,049	-	-	12,049	-	-
72	24,696	25	-	24,721	-	-
84	1,978	45	-	2,023	1,250	-
85	23,345	-	-	23,345	-	-
90	17,510	167	774	18,451	50	82
95	47,970	185	-	48,155	-	-
Total	\$ 500,208	\$ 572	\$ 774	\$ 501,554	\$ 5,300	\$ 82

Schedule 12

	Advances from Other Funds	Total Liabilities	Deferred Inflows of Resources	Fund Balances		Total Fund Balances	Total Liabilities, Deferred Inflows of Resources, and Fund Balances
				Restricted	Unassigned		
\$	-	\$ -	\$ -	\$ 45,456	\$ -	\$ 45,456	\$ 45,456
	-	-	9	9,142	-	9,142	9,151
	-	-	-	12,340	-	12,340	12,340
	-	-	-	5,879	-	5,879	5,879
	-	-	-	9,839	-	9,839	9,839
	-	-	-	1,511	-	1,511	1,511
	6,900	6,900	-	-	(6,847)	(6,847)	53
	-	-	-	8,499	-	8,499	8,499
	-	-	2	3,939	-	3,939	3,941
	-	-	-	43,394	-	43,394	43,394
	-	-	-	15,612	-	15,612	15,612
	-	-	-	11,567	-	11,567	11,567
	-	-	-	586	-	586	586
	-	-	-	5,589	-	5,589	5,589
	-	-	-	14,389	-	14,389	14,389
	-	-	-	26,376	-	26,376	26,376
	-	-	2	1,741	-	1,741	1,743
	-	-	-	6,939	-	6,939	6,939
	-	-	45	11,895	-	11,895	11,940
	-	-	-	25,631	-	25,631	25,631
	-	-	-	17,223	-	17,223	17,223
	-	4,000	-	16,820	-	16,820	20,820
	-	-	-	1,411	-	1,411	1,411
	-	-	47	22,196	-	22,196	22,243
	-	-	-	7,235	-	7,235	7,235
	8,800	8,800	-	-	(5,977)	(5,977)	2,823
	-	-	-	5,158	-	5,158	5,158
	-	-	-	11,572	-	11,572	11,572
	-	-	-	18,448	-	18,448	18,448
	-	-	45	5,397	-	5,397	5,442
	-	-	-	12,049	-	12,049	12,049
	4,400	4,400	25	20,296	-	20,296	24,721
	5,200	6,450	45	-	(4,472)	(4,472)	2,023
	-	-	-	23,345	-	23,345	23,345
	-	132	167	18,152	-	18,152	18,451
	-	-	185	47,970	-	47,970	48,155
\$	25,300	\$ 30,682	\$ 572	\$ 487,596	\$ (17,296)	\$ 470,300	\$ 501,554

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 13

**BALANCE SHEET - BY UNORGANIZED TOWNSHIP
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND
DECEMBER 31, 2016**

	<u>Klondike</u>	<u>McKinley</u>	<u>North Red River</u>	<u>Peatland</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 8,731	\$ 34,268	\$ 101,061	\$ 67,313	\$ 211,373
Taxes receivable - prior	111	7	-	46	164
Total Assets	<u>\$ 8,842</u>	<u>\$ 34,275</u>	<u>\$ 101,061</u>	<u>\$ 67,359</u>	<u>\$ 211,537</u>
 <u>Liabilities, Deferred Inflows of Resources and Fund Balance</u>					
Liabilities					
Due to other funds	\$ 335	\$ 576	\$ 420	\$ 155	\$ 1,486
Deferred Inflows of Resources					
Taxes	\$ 111	\$ 7	\$ -	\$ 46	\$ 164
Fund Balances					
Assigned to unorganized townships	\$ 8,396	\$ 33,692	\$ 100,641	\$ 67,158	\$ 209,887
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 8,842</u>	<u>\$ 34,275</u>	<u>\$ 101,061</u>	<u>\$ 67,359</u>	<u>\$ 211,537</u>

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 14

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Primary Government
Shared Revenue	
State	
County program aid	\$ 103,318
Disparity reduction aid	4,458
Enhanced 911	74,183
Highway users tax	4,754,999
Market value credit	114,912
PERA rate reimbursement	13,874
Police state aid	41,344
State gas tax	20,112
County Aquatic Invasive Species Prevention Aid	19,583
Total Shared Revenue	\$ 5,146,783
Reimbursement for Services	
State	
Minnesota Department of Human Services	\$ 369,028
Payments	
Payments in lieu of taxes	\$ 191,801
Grants	
Local	
Markit Landfill	\$ 141,000
State	
Minnesota Department/Board of	
Corrections	\$ 8,342
Human Services	26,311
Natural Resources	138,830
Peace Officer Standards and Training	1,876
Public Safety	660
Pollution Control Agency	182,104
Trial Courts	832
Veterans Affairs	7,500
Water and Soil Resources	53,026
Total State	\$ 419,481
Federal	
Department of	
Agriculture	\$ 39,500
Health and Human Services	299,505
Homeland Security	62,022
Transportation	403,811
Total Federal	\$ 804,838
Total Grants	\$ 1,365,319
Total Intergovernmental Revenue	\$ 7,072,931

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 15

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Pass-through Grant Number	Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Human Services SNAP Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN101S2514	\$ <u>39,500</u>
U.S. Department of Transportation			
Highway Planning and Construction Cluster Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	00035	\$ 403,653
Passed Through Minnesota Department of Public Safety Highway Planning and Construction	20.608	Not Provided	<u>158</u>
Total U.S. Department of Transportation			\$ <u>403,811</u>
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	G-1601MNFPS	\$ 1,421
TANF Cluster Temporary Assistance for Needy Families	93.558	1601MNTANF	48,489
Child Support Enforcement	93.563	1604MNCEST	79,426
Refugee and Entrant Assistance Grant	93.566	1601MNRCA	38
CCDF Cluster Child Care and Development Block Grant	93.575	G1601MNCCDF	337
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFPRPG	1,036
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	893
Foster Care Title IV-E	93.658	1601MNFOST	9,642
Social Services Block Grant	93.667	16-01MNSOSR	48,596
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	1,000
Medicaid Cluster Medical Assistance Program	93.778	05-1605MN5ADM	<u>108,627</u>
Total U.S. Department of Health and Human Services			\$ <u>299,505</u>
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety Hazard Mitigation Grant	97.039	HAZMIT/4009/07/15/2016	8,915
Emergency Management Performance Grants	97.042	F-EMPG-2016-KITTSOON-1650/1709	14,838
Homeland Security Grant Program	97.067	F-OPSG-2014-KITTSOON-1412/1720	<u>38,269</u>
Total U.S. Department of Homeland Security			\$ <u>62,022</u>
Total Federal Awards			\$ <u>804,838</u>
Kittson County did not pass any federal awards through to subrecipients during the year ended December 31, 2016.			
Totals by Cluster			
Total expenditures for SNAP Cluster			\$ 39,500
Total expenditures for Highway Safety Cluster			403,653
Total expenditures for TANF Cluster			48,489
Total expenditures for CCDF Cluster			108,627
Total expenditures for Medicaid Cluster			

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

I. Reporting Entity

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

II. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Kittson County under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Office Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Kittson County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Kittson County.

III. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by all pass-through agencies. Kittson County has elected to not use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.

IV. Subrecipients

During 2016, the County did not pass any federal money to subrecipients.

V. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In 2016, the County had no funds designated as ARRA funds.

MANAGEMENT AND COMPLIANCE SECTION

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 16

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unmodified opinion on the financial statements of Kittson County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Kittson County and are reported in the "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None of the significant deficiencies are material weaknesses.
- C. No instances of noncompliance material to the financial statements of Kittson County were disclosed during the audit.
- D. One matter involving internal control over compliance relating to the audit of the major federal award program was reported in the "Report on Compliance for Each Major Federal Program, and Report on Internal Control Over Compliance."
- E. The Auditor's Report on Compliance for the major federal award program for Kittson County expresses an unmodified opinion.
- F. One finding was disclosed that is required to be reported in accordance with 2 CFR 200.516(a).
- G. The major program was:
 - Highway Planning and Construction
 - CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$750,000.
- I. Kittson County was determined to be a non low-risk auditee.

**KITTSON COUNTY
HALLOCK, MINNESOTA**

Schedule 16
(Continued)

II. 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:

Kittson County, through its County Board, County Administrator, and Department Heads, continues to look for opportunities to segregate duties to ensure adequate internal controls can be maintained. Due to the limited number of people employed by Kittson County, it is not possible to segregate duties sufficiently as to eliminate all internal control risk. The County Administrator, through external sources and vendors, continues to make every effort to educate Department Heads on the value of maintaining internal controls and encourages the cross-training of existing employees as an interim solution.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 16
(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 Administrator, in his role as Auditor-Treasurer, continues to stay abreast of financial reporting requirements and changes in GASB pronouncements. In addition, the County is continuing to assess and improve its inventory and asset management procedures. The County is not currently working with any outside consulting firm regarding compliance issues; however, the County is always looking for opportunities to educate employees on best practices as it relates to the implementation of internal controls.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 16
(Continued)

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

2016-001 Reporting Requirements

Criteria: The Uniform Guidance states that an auditee must submit a data collection form and audit reporting package to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of the auditor's report or 9 months after the end of the audit period.

Condition: Kittson County did not submit the data collection form to the Federal Audit Clearinghouse within the required time frame.

Context: The County was in violation of the reporting requirements when their audit was not completed until 12 months after the end of the fiscal year.

Effect: This was a first-time isolated instance of late reporting that is not expected to reoccur.

Cause: Complications during the course of the audit imposed by an external oversight agency delayed the auditor's in the completion of the auditor report.

Recommendation: The annual County audit should be completed within 9 months of the fiscal year end to allow for timely submission of the data collection form and reporting package.

Summary of Corrective Action Plan: *The late audit report was beyond the control of the County. The County Administrator will monitor the progress of the annual audit in the future so that the annual audit will be completed on a timely basis as described in our corrective action plan.*

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 17

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding Number: 1996-001

Finding Title: Segregation of Duties

Summary of 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.

Summary of Corrective Action Previously Reported: 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.

Status: Not resolved. The County understands the condition due to its small size.

Finding Number: 2007-001

Finding Title: Internal Controls

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

Summary of Corrective Action Previously Reported: The County has a system of internal controls in spite of limited staff and are working on improvements to written documentation of the process for monitoring those controls.

Status: Partially Resolved. The County has been working 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.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 18

SCHEDULE OF PRIOR AUDIT FINDINGS OF OTHER AUDITORS
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding Number: 1996-001

Finding Title: Segregation of Duties

Summary of 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 financial information and activity within County departments.

Summary of Corrective Action Previously Reported: 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.

Status: Not resolved. The County understands the condition due to its small size.

Finding Number: 2007-001

Finding Title: Documenting and Monitoring Internal Controls

Summary of Condition: The County lacks written policies and procedures over some significant functions to ensure the effectiveness of internal controls over financial reporting and operational objectives, and the safeguarding of assets against unauthorized acquisition, use, or disposition.

Summary of Corrective Action Previously Reported: The County has a system of internal controls in spite of limited staff and are working on improvements to written documentation of the process for monitoring those controls.

Status: Partially Resolved. The County has been working to gradually add written policies and procedures to stay in compliance with SAS and GASB standards.

Finding Number: 2015-001

Finding Title: Prior Period Adjustments

Summary of Condition: Prior period adjustments material to the financial statements were identified during the audit, including a highway grant receivable and capital assets under the capitalization threshold.

Summary of Corrective Action: The County has implemented procedures over financial reporting that include reviews of balances, disclosures, and supporting documentation by qualified individuals to ensure the information is complete and accurate.

Status: Resolved.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 18
(Continued)

Finding Number: 2015-002

Finding Title: Audit Adjustments

Summary of Condition: Material audit adjustments were identified that resulted in significant changes to the County's financial statements, including a highway grant receivable and capital assets under the capitalization threshold.

Summary of Corrective Action: The County has implemented procedures over financial reporting that include reviews of balances, disclosures, and supporting documentation by qualified individuals to ensure the information is complete and accurate.

Status: Resolved.

Finding Number: 2015-003

Finding Title: Fund Balance Reporting

Summary of Condition: The County reported committed fund balances in ten categories for which County Board resolutions could not be found, neglected to report one restricted fund balance, and did not separately report the negative portion of the Ditch Special Revenue Fund balances as unassigned fund balance.

Summary of Corrective Action: The County has reviewed their fund balance policy and developed procedures to ensure all fund balance classifications are correctly reported.

Status: Resolved.

Finding Number: 2015-004

Finding Title: Financial Statement Disclosures

Summary of Condition: The Health Insurance Special Revenue Fund should be reported as an Agency Fund and the Mar-Kit Landfill Investment Trust Fund should be reported with the Agency Fund. The Forfeited Tax Fund is being reported as a Special Revenue Fund when it does not meet the criteria for this type of reporting. The net position reported as net investment in capital assets included debt of the North Kittson Rural Water System. The note on custodial credit risk did not adequately report the County's exposure. The net pension data used for reporting purposes included amounts for the Mar-Kit Landfill, a separate fiscal entity for which the County is the fiscal agent. Several mathematical errors were found in the notes to the financial statements.

Summary of Corrective Action: The County is developing and documenting a process to review the financial report before the report is issued, and has reclassified the funds to the suggested fund types.

Status: Resolved.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 18
(Continued)

Finding Number: 2015-005

Finding Title: Journal Entry Approval

Summary of Condition: There was no documented review and approval process for journal entries entered in the general ledger system.

Summary of Corrective Action: The County has developed and documented a process for review and approval of journal entries by a responsible supervisor including a signature and date.

Status: Resolved.

Finding Number: 2015-006

Finding Title: Vendor Setup

Summary of Condition: Seven of the nine County staff with access to the County's financial system have the ability to set up new vendors. Three of these seven positions also have the ability to process disbursements.

Summary of Corrective Action: The County has implemented a policy whereby only one individual will enter all new vendors and changes to existing vendors with approval from the County Administrator in a timely manner.

Status: Resolved.

Finding Number: 2015-007

Finding Title: Withholding Affidavit for Contractors

Summary of Condition: Final payment was made on a highway department contract before the certificate of withholding was received from the contractor.

Summary of Corrective Action: The County has always required the certificate of withholding before final payment is made to any contractor, this oversight was due to a turnover in staff and will be more closely monitored in the future.

Status: Resolved.

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

Schedule 18
(Continued)

Finding Number: 2015-008

Finding Title: Cashbook Not Retained

Summary of Condition: The Treasurer's cashbook was not retained as a permanent document in accordance with the General Records Retention Schedule for Counties.

Summary of Corrective Action: The County Treasurer's cashbook will be retained as a permanent printed record effective immediately.

Status: Resolved.

Finding Number: 2015-009

Finding Title: Collateral Assignments

Summary of Condition: Pledge agreements from two of the County's depositories did not contain all of the language required by Minnesota Statute.

Summary of Corrective Action: The County Administrator has obtained new pledge agreements which contain all of the required statutory language.

Status: Resolved.

Finding Number: 2015-010

Finding Title: Ditch Fund Balance Deficits

Summary of Condition: Four of the County's individual ditch systems had deficit fund balances.

Summary of Corrective Action: In accordance with Minnesota statutes, the individual ditch systems borrowed from General Fund for the necessary expenditures and levied assessments to cover the costs. The County makes every effort to levy in advance to maintain a minimum balance for future expenditures.

Status: Resolved.



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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, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 7, 2018.

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 Counties*, 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 Counties*. 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 Counties*, 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

September 7, 2018

Colleen Hoffman, Director
Crystelle Philipp, CPA
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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM,
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Independent Auditor's Report

Board of County Commissioners
Kittson County

Report on Compliance for the Major Federal Programs

We have audited Kittson County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the County's major federal programs for the year ended December 31, 2016. The County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the County's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kittson County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on the Major Federal Program

In our opinion, Kittson County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

Report on Internal Control Over Compliance

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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control over compliance as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001 that we consider to be material weakness.

Kittson County’s Responses to Findings

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

Purpose of This Report

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



Hoffman, Philipp, & Knutson, PLLC

September 7, 2018