

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

YEAR ENDED DECEMBER 31, 2017



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, 2017**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
<b>Commissioners</b>		
1 <sup>st</sup> District	Corey Wikstrom	January 2021
2 <sup>nd</sup> District	Theresia Gillie	January 2021
3 <sup>rd</sup> District	Joe Bouvette	January 2019
4 <sup>th</sup> District	Leon Olson	January 2021
5 <sup>th</sup> District	Betty Younggren, Chair	January 2019
<b>Officers</b>		
Elected:		
Attorney	Roger Malm <sup>1</sup>	January 2019
Sheriff	Steve Porter	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	May 2021

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<sup>1</sup> Replaced by Robert Albrecht, effective January 7, 2019. Term expires January 2023.

## **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, 2017, 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, 2017, 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 Information*

The introductory section and other schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2019, 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

January 28, 2019



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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, 2017. 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 \$65,884,602, of which \$61,247,298 is the net investment in capital assets, \$1,566,496 is restricted for specific purposes, and \$3,070,808 is unrestricted. The total net position of governmental activities increased by \$1,728,428 for the year ended December 31, 2017. This is attributed primarily to a decrease in net pension liability.

At the close of 2017, the County's governmental funds reported combined ending fund balances of \$7,005,215, a decrease of \$221,164 from the prior year. Of the total fund balance amount, \$976,589 is non-spendable, \$2,359,429 is legally or contractually restricted, \$4,296,774 is assigned for specific purposes, and a negative unassigned fund balance of \$627,577 is noted. 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.

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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 include eleven agency funds. 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 22 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 \$65,884,602 at the close of 2017. 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 2 percent of the County's net position is restricted and 5 percent of the County's net position is unrestricted. The unrestricted net position amount of \$3,070,808, as of December 31, 2017, may be used to meet the County's ongoing obligations to citizens.

The County's overall financial position increased from last year. Total assets and deferred outflows of resources increased by \$887,970 from the prior year primarily due to construction of infrastructure. Total liabilities and deferred inflows of resources decreased by \$840,458 from the prior year, mainly due to a decrease in net pension liability. This resulted in an increased net position of \$1,728,428 from the prior year.

## PRIMARY GOVERNMENT

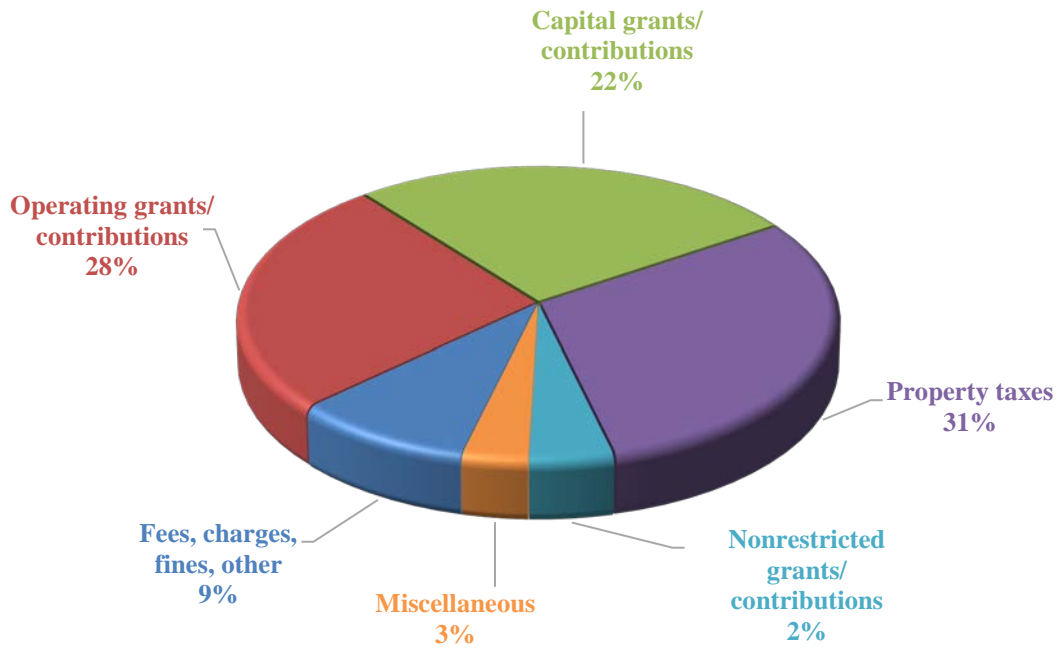
### NET POSITION

	Governmental Activities	
	2017	2016
Current and other assets	\$ 9,210,681	\$ 9,491,520
Capital assets	61,247,298	59,412,740
Total assets	<u>\$ 70,457,979</u>	<u>\$ 68,904,260</u>
Deferred outflows - pensions	<u>\$ 2,269,876</u>	<u>\$ 2,935,625</u>
Other liabilities	\$ 611,385	\$ 1,094,015
Long-term liabilities outstanding	<u>4,015,220</u>	<u>6,008,154</u>
Total liabilities	<u>\$ 4,626,605</u>	<u>\$ 7,102,169</u>
Deferred inflows	<u>\$ 2,216,648</u>	<u>\$ 581,542</u>
Net position		
Net investment in capital assets	\$ 61,247,298	\$ 59,412,740
Restricted	1,566,496	2,449,196
Unrestricted	<u>3,070,808</u>	<u>2,294,238</u>
Total net position	<u><u>\$ 65,884,602</u></u>	<u><u>\$ 64,156,174</u></u>

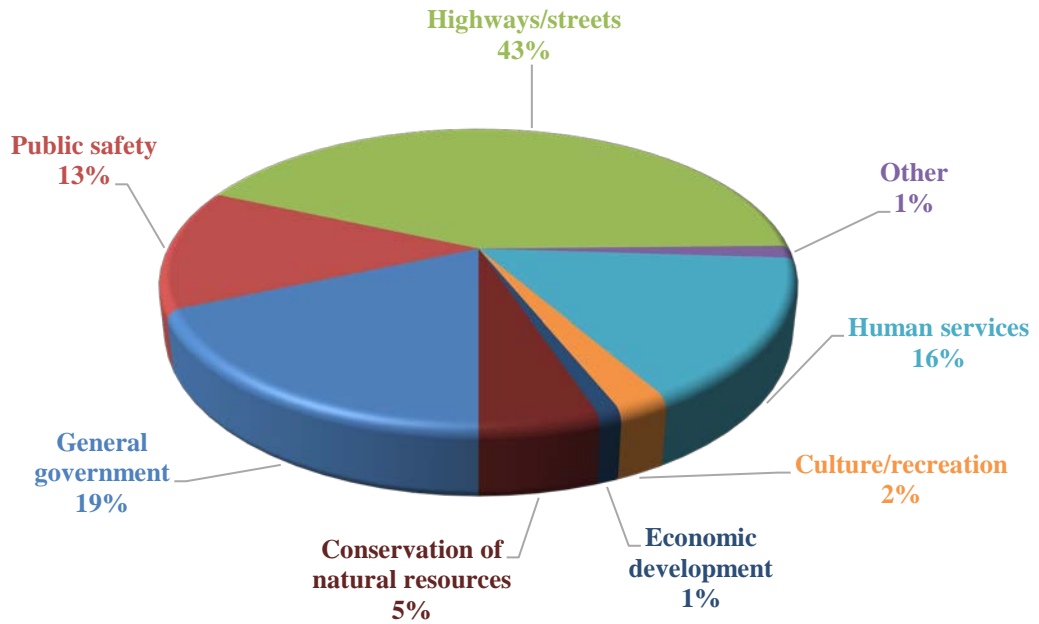
### CHANGES IN NET POSITION

	Primary Government	
	Governmental Activities	
	2017	2016
Revenues		
Program Revenues		
Fees, charges, fines and other	\$ 1,157,549	\$ 1,744,456
Operating grants and contributions	3,261,840	3,334,213
Capital grants and contributions	3,301,882	2,692,762
General Revenues and Transfers		
Property taxes	3,794,905	3,659,056
Grants and contributions not restricted to specific programs	540,236	276,257
Payments in lieu of taxes	187,609	191,801
Insurance dividends	119,629	127,326
Investment earnings	<u>117,517</u>	<u>119,029</u>
Total revenues	<u>\$ 12,481,167</u>	<u>\$ 12,144,900</u>
Expenses		
General government	\$ 1,987,655	\$ 2,873,611
Public safety	1,420,996	1,590,408
Highways and streets	4,621,968	5,150,572
Sanitation	106,700	127,375
Human services	1,679,381	1,572,564
Health	34,991	34,736
Culture and recreation	239,735	214,246
Conservation of natural resources	554,599	405,378
Economic development	<u>106,714</u>	<u>218,920</u>
Total expenses	<u>\$ 10,752,739</u>	<u>\$ 12,187,810</u>
Increase (decrease)	<u>\$ 1,728,428</u>	<u>\$ (42,910)</u>
Net assets, January 1, as previously reported	\$ 64,156,174	\$ 66,628,097
Prior period adjustment	-	(2,429,013)
Net position, January 1, as restated	<u>\$ 64,156,174</u>	<u>\$ 64,199,084</u>
Net position, December 31	<u><u>\$ 65,884,602</u></u>	<u><u>\$ 64,156,174</u></u>

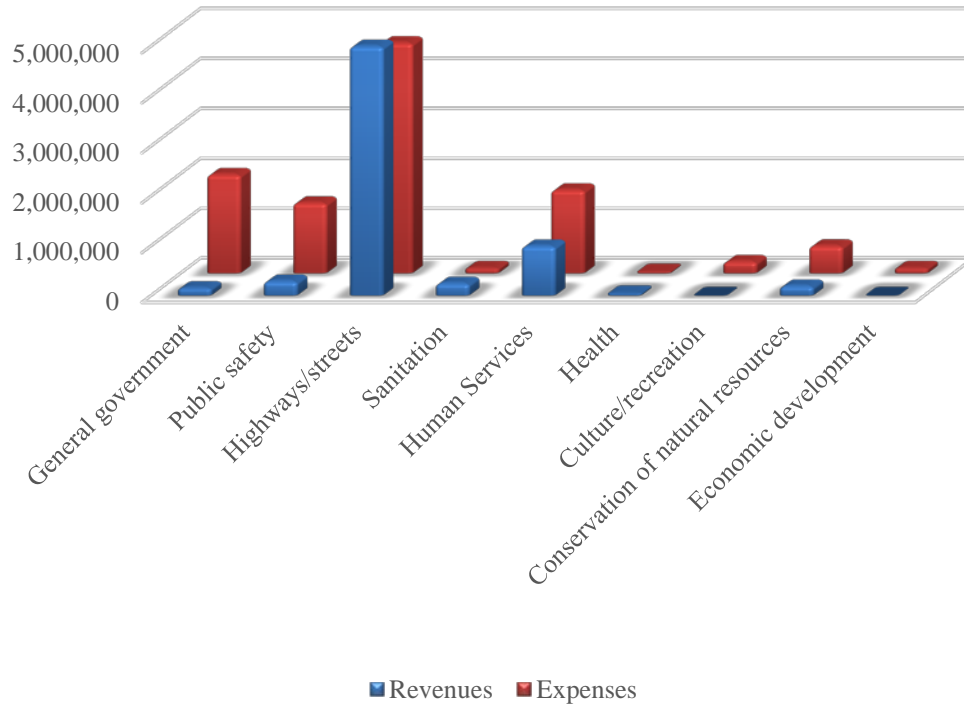
## Revenues by Source



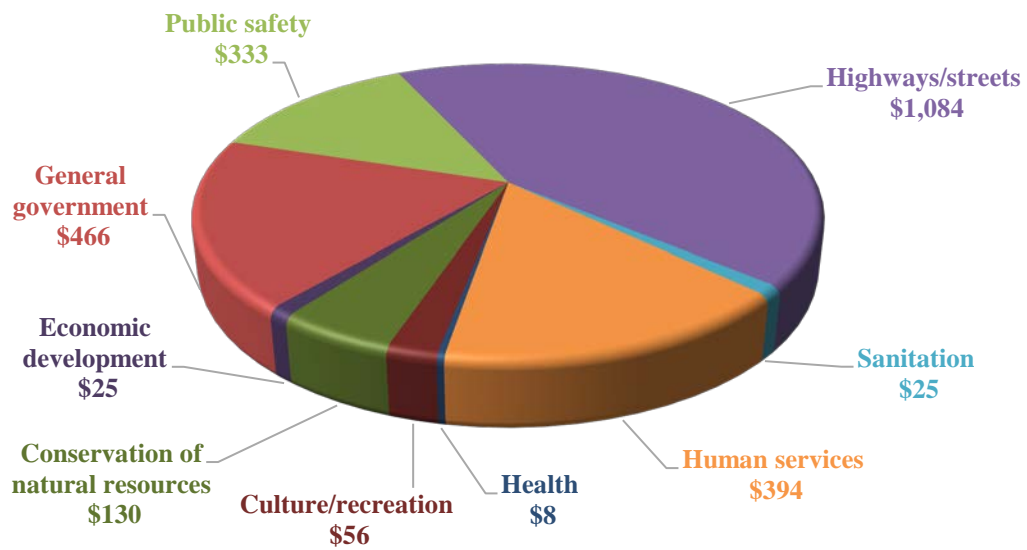
## Expenses by Function



## Program Revenues & Expenses



## Expenditures Per Capita 4,262 Population as of December 31, 2017



## **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 2017, the County's governmental funds reported combined ending fund balances of \$7,005,215. Of this amount, approximately 14 percent constitutes non-spendable fund balance, 34 percent constitutes legally or contractually restricted fund balance, 61 percent constitutes specifically assigned fund balance, and (9) 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 \$4,663,389. The General Fund's non-spendable fund balance was \$709,900, the restricted fund balance was \$910,001, the assigned fund balance was \$1,813,082, and unassigned fund balance was \$1,230,406. 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 2017. Unrestricted fund balance represents 79 percent of total General Fund expenditures, while total fund balance represents 121 percent of that same amount.

In 2017, the fund balance amount in the General Fund increased by \$127,118, primarily due to a rise in interest rates which caused interest income to exceed what had been budgeted.

The fund balance of the Road and Bridge Special Revenue Fund decreased by \$266,009 in 2017 due to a shortfall in State Aid Construction funds.

The fund balance of the Social Services Special Revenue Fund increased \$126,386 from the prior year due to the cost of providing social services to the public falling short of what had been forecasted.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual revenues were less than overall budgeted revenues by \$13,085, primarily as a result of overbudgeted taxes and charges and services. Actual expenditures were less than overall budgeted expenditures by \$85,113 as a result of overbudgeted solid waste, public safety, and capital outlay.

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

#### **Capital Assets**

The County's investment in capital assets for its governmental activities as of December 31, 2017 amounted to \$61,247,298 (net of accumulated depreciation). The total increase in the County's investment in capital assets for the current fiscal year was approximately 3 percent. This was primarily due to the construction of highways and streets infrastructure.



	Governmental Activities	
	2017	2016
Land	\$ 1,578,981	\$ 1,578,672
Construction in progress	2,988,127	1,713,109
Infrastructure	54,568,609	53,809,326
Buildings and improvements	1,050,237	1,176,986
Machinery and equipment	1,061,344	1,134,647
<b>Total capital assets</b>	<b>\$ 61,247,298</b>	<b>\$ 59,412,740</b>

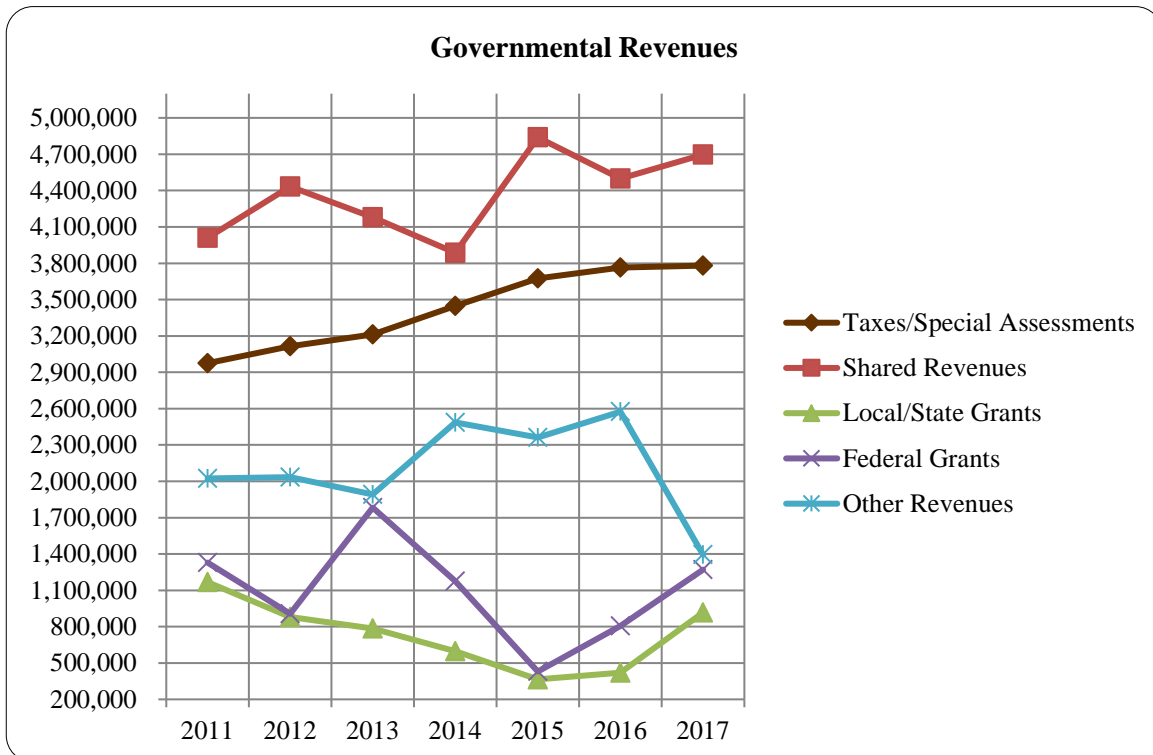
Additional information on the County’s capital assets can be found in the notes to the financial statements.

### Long-Term Debt

At the end of the current fiscal year, Kittson County had no long-term debt. The North Kittson Rural Water System had bonds outstanding in the amount of \$500,000, 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 4.0 percent as of December, 2017. This is higher than the statewide rate of 3.4 percent and higher than the national average rate of 3.9 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 December 31, 2017 was 4,252, a decrease of 300 since 2010. This ranks Kittson County 84<sup>th</sup> of 87 in the State of Minnesota.
- On December 7, 2017, Kittson County set its 2018 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, 2017**

	<u>Primary Government Governmental Activities</u>	<u>Discretely Presented Component Unit</u>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 6,532,068	\$ 250,043
Investments	140,000	1,962,796
Taxes receivable - prior	72,979	-
Special assessments receivable - current	-	4,523
Special assessments receivable - prior	797	3,206
Accounts receivable	26,794	58,291
Accrued interest receivable	33,188	3,312
Due from other governments	2,138,166	381,408
Surcharge receivable	-	6,380
Inventories	266,689	-
Special assessments receivable - noncurrent	-	404,296
Capital assets		
Non-depreciable	4,567,108	109,045
Depreciable - net of accumulated depreciation	56,680,190	9,240,713
	<b>\$ 70,457,979</b>	<b>\$ 12,424,013</b>
<b><u>Deferred Outflows of Resources</u></b>		
Related to pensions	<b>\$ 2,269,876</b>	<b>\$ 55,478</b>
<b><u>Liabilities</u></b>		
Accounts payable	\$ 213,869	\$ 7,543
Salaries payable	181,891	-
Accrued payroll taxes	-	7,835
Contracts payable	123,068	-
Due to other governments	92,557	1,328
Customer deposits	-	12,015
Long-term liabilities		
Due within one year	173,662	109,526
Due in more than one year	3,841,558	637,023
	<b>\$ 4,626,605</b>	<b>\$ 775,270</b>
<b><u>Deferred Inflows of Resources</u></b>		
Related to pensions	<b>\$ 2,216,648</b>	<b>\$ 77,320</b>
<b><u>Net Position</u></b>		
Net investment in capital assets	\$ 61,247,298	\$ 8,849,758
Amounts restricted for		
General government	342,952	-
Public safety	334,768	-
Highways and streets	827,398	-
Conservation of natural resources	61,378	-
Debt service	-	166,036
Unrestricted amounts	3,070,808	2,611,107
	<b>\$ 65,884,602</b>	<b>\$ 11,626,901</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Expenses</u>	<u>Fees, Charges, Fines and Other</u>	<u>Program Revenues Operating Grants and Contributions</u>
<b><u>Functions/Programs</u></b>			
<b>Primary Government</b>			
<b>Governmental activities</b>			
General government	\$ 1,987,655	\$ 146,131	\$ 7,500
Public safety	1,420,996	26,299	265,538
Highways and streets	4,621,968	597,566	1,889,134
Sanitation	106,700	27,699	220,193
Human services	1,679,381	241,668	756,825
Health	34,991	-	47,246
Culture and recreation	239,735	-	-
Conservation of natural resources	554,599	118,186	75,404
Economic development	106,714	-	-
<b>Total Primary Government</b>	<b><u>\$ 10,752,739</u></b>	<b><u>\$ 1,157,549</u></b>	<b><u>\$ 3,261,840</u></b>
<b>Component Unit</b>			
North Kittson Rural Water System	\$ 856,230	\$ 722,998	\$ -

**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**

**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
\$ -	\$ (1,834,024)	\$ -
-	(1,129,159)	-
3,301,882	1,166,614	-
-	141,192	-
-	(680,888)	-
-	12,255	-
-	(239,735)	-
-	(361,009)	-
-	(106,714)	-
<b>\$ 3,301,882</b>	<b>\$ (3,031,468)</b>	<b>\$ -</b>
<b>\$ 82,045</b>	<b>\$ -</b>	<b>\$ (51,187)</b>
	\$ 3,794,905	\$ -
	540,236	380
	187,609	-
	119,629	-
	117,517	8,405
	<b>\$ 4,759,896</b>	<b>\$ 8,785</b>
	<b>\$ 1,728,428</b>	<b>\$ (42,402)</b>
	<b>64,156,174</b>	<b>11,669,303</b>
	<b>\$ 65,884,602</b>	<b>\$ 11,626,901</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2017**

	<u>General Fund</u>	<u>Special Revenue Funds</u>		<u>Other Governmental Funds (Statement 1)</u>	<u>Total Governmental Funds</u>
		<u>Road and Bridge</u>	<u>Social Services</u>		
<b><u>Assets</u></b>					
<b>Assets</b>					
Cash and pooled investments	\$ 4,046,092	\$ 114,571	\$ 1,745,547	\$ 625,858	\$ 6,532,068
Investments	100,000	-	40,000	-	140,000
Taxes receivable - prior	46,872	11,932	14,113	62	72,979
Special assessments receivable - prior	-	-	-	797	797
Accounts receivable	3,054	13,911	9,829	-	26,794
Accrued interest receivable	33,183	-	5	-	33,188
Due from other funds	307	2,923	-	-	3,230
Due from other governments	67,497	1,947,107	123,562	-	2,138,166
Inventories	-	266,689	-	-	266,689
Advances to other funds	709,900	-	-	-	709,900
<b>Total Assets</b>	<b>\$ 5,006,905</b>	<b>\$ 2,357,133</b>	<b>\$ 1,933,056</b>	<b>\$ 626,717</b>	<b>\$ 9,923,811</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 129,720	\$ 22,831	\$ 61,318	\$ -	\$ 213,869
Salaries payable	82,627	71,330	27,934	-	181,891
Contracts payable	-	123,068	-	-	123,068
Due to other funds	1,767	-	267	1,196	3,230
Due to other governments	87,222	2,927	2,200	208	92,557
Advances from other funds	-	640,000	-	69,900	709,900
<b>Total Liabilities</b>	<b>\$ 301,336</b>	<b>\$ 860,156</b>	<b>\$ 91,719</b>	<b>\$ 71,304</b>	<b>\$ 1,324,515</b>
<b>Deferred Inflows of Resources</b>					
Taxes	\$ 42,180	\$ 10,789	\$ 12,710	\$ 62	\$ 65,741
Special assessments	-	-	-	518	518
County State Aid Highway Allotment	-	1,527,822	-	-	1,527,822
<b>Total Deferred Inflows of Resources</b>	<b>\$ 42,180</b>	<b>\$ 1,538,611</b>	<b>\$ 12,710</b>	<b>\$ 580</b>	<b>\$ 1,594,081</b>
<b>Fund Balances</b>					
Non-spendable	\$ 709,900	\$ 266,689	\$ -	\$ -	\$ 976,589
Restricted	910,001	985,069	-	464,359	2,359,429
Assigned	1,813,082	-	1,828,627	156,455	3,798,164
Unassigned	1,230,406	(1,293,392)	-	(65,981)	(128,967)
<b>Total Fund Balances</b>	<b>\$ 4,663,389</b>	<b>\$ (41,634)</b>	<b>\$ 1,828,627</b>	<b>\$ 554,833</b>	<b>\$ 7,005,215</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 5,006,905</b>	<b>\$ 2,357,133</b>	<b>\$ 1,933,056</b>	<b>\$ 626,717</b>	<b>\$ 9,923,811</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2017**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>7,005,215</b>
<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>		61,247,298
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.</p>		1,594,081
<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	\$ (469,135)	
Other post-employment benefits	(205,243)	(674,378)
<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	\$ 2,269,876	
Deferred inflows of resources related to pensions	(2,216,648)	
Net pension liability	(3,340,842)	(3,287,614)
<b>Net position of governmental activities (Exhibit 1)</b>	<b>\$</b>	<b><u>65,884,602</u></b>



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT 5*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	General Fund	Special Revenue Funds		Other Government Funds (Statement 2)	Total Governmental Funds
		Road and Bridge	Social Services		
<b>Revenues</b>					
Taxes	\$ 2,444,905	\$ 602,975	\$ 713,183	\$ 19,427	\$ 3,780,490
Special assessments	-	-	-	112,615	112,615
Licenses and permits	9,770	-	-	-	9,770
Intergovernmental	1,106,170	4,881,322	820,246	75,235	6,882,973
Charges for services	137,905	512,035	117,506	-	767,446
Fines and forfeitures	3,940	-	-	-	3,940
Investment earnings	117,388	-	129	-	117,517
Miscellaneous	167,796	85,195	123,973	5,625	382,589
<b>Total Revenues</b>	<b>\$ 3,987,874</b>	<b>\$ 6,081,527</b>	<b>\$ 1,775,037</b>	<b>\$ 212,902</b>	<b>\$ 12,057,340</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 1,845,554	\$ -	\$ -	\$ -	\$ 1,845,554
Public safety	1,185,918	-	-	6,390	1,192,308
Highways and streets	-	6,220,271	-	101,332	6,321,603
Sanitation	94,801	-	-	-	94,801
Human services	-	-	1,648,651	-	1,648,651
Health	34,991	-	-	-	34,991
Culture and recreation	239,735	-	-	-	239,735
Conservation of natural resources	325,656	-	-	230,162	555,818
Economic development	106,714	-	-	-	106,714
<b>Total Current</b>	<b>\$ 3,833,369</b>	<b>\$ 6,220,271</b>	<b>\$ 1,648,651</b>	<b>\$ 337,884</b>	<b>\$ 12,040,175</b>
<b>Capital Outlay</b>					
Public safety	\$ 27,387	\$ -	\$ -	\$ -	\$ 27,387
Highways and streets	-	127,265	-	-	127,265
<b>Total Capital Outlay</b>	<b>\$ 27,387</b>	<b>\$ 127,265</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 154,652</b>
<b>Total Expenditures</b>	<b>\$ 3,860,756</b>	<b>\$ 6,347,536</b>	<b>\$ 1,648,651</b>	<b>\$ 337,884</b>	<b>\$ 12,194,827</b>
<b>Net Change in Fund Balance</b>	<b>\$ 127,118</b>	<b>\$ (266,009)</b>	<b>\$ 126,386</b>	<b>\$ (124,982)</b>	<b>\$ (137,487)</b>
<b>Fund Balance - January 1</b>	<b>4,536,271</b>	<b>308,052</b>	<b>1,702,241</b>	<b>679,815</b>	<b>7,226,379</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>(83,677)</b>	<b>-</b>	<b>-</b>	<b>(83,677)</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,663,389</b>	<b>\$ (41,634)</b>	<b>\$ 1,828,627</b>	<b>\$ 554,833</b>	<b>\$ 7,005,215</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ (137,487)**

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	\$ 3,720,484	
Current year depreciation	<u>(1,885,926)</u>	1,834,558

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

Change in deferred inflows of resources		422,955
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Some expenses reported in the Statement of Activities do not require the  
use of current financial resources and, therefore, are not reported as  
expenditures in governmental funds.

Change in		
Compensated absences payable	\$ 4,966	
Inventories	(83,677)	
Other post-employment benefits	<u>(5,328)</u>	(84,039)

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.

(307,559)

**Change in net position of governmental activities (Exhibit 2) \$ 1,728,428**

**KITSON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2017**

	<u>Agency (Statement 3)</u>
<u>Assets</u>	
Cash and pooled investments	\$ <u>5,798,691</u>
<u>Liabilities</u>	
Accounts payable	\$ 181,130
Due to other governments	<u>5,617,561</u>
<b>Total Liabilities</b>	<b>\$ <u>5,798,691</u></b>

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

I. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

Kittson County was established March 9, 1878, and is an organized county having the powers, duties, and privileges granted counties by Minnesota Statutes, Chapter 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Kittson County (primary government) and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Administrator, serves as the clerk of the Board but has no vote.

B. Discretely Presented Component Unit

The North Kittson Rural Water System Component Unit is reported in a separate column in the County's basic financial statements to emphasize that the North Kittson Rural Water System is legally separate from Kittson County. The Board of Directors operates the Water System in a portion of Kittson County and consists of seven members appointed by the Kittson County Board of Commissioners for four-year terms. The Board is responsible for providing water for participating rural users and cities within the water district as provided in Minnesota Statutes, Chapter 116A. Kittson County levies assessments to retire general obligation debt issued by the County to construct the water system.

Complete financial statements of the North Kittson Rural Water System can be obtained from the Kittson County Administrator's Office or the administrative offices of the Rural Water System in Lake Bronson, Minnesota 56734.

C. Joint Ventures

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies (Continued)

D. Basic Financial Statements

1. Government-Wide Statements

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

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

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

**KITTSON 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.

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. Kittson County considers property tax revenues as available if collected within 60 days after the end of the current period. Property taxes are recognized as revenues in the year for which they are levied provided they are available. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are available. Intergovernmental revenues, charges for services, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the County receives value without directly giving equal value in return, include property taxes, grants, and donations. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**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, 2017, 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 2017 were \$117,388. Total investment earnings were \$117,517.

2. Receivables and Payables

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

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance non-spendable account in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources, unless the funds are otherwise restricted, committed, or assigned.

No allowance for uncollectable receivables has been provided because such amounts are not expected to be material.

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 governmental activities' column in the 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.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

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

4. Capital Assets (Continued)

Capital assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

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

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

5. Deferred Outflows/Inflows of Resources

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

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

6. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

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

6. Compensated Absences (Continued)

Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are generally liquidated by the General Fund, Road and Bridge Special Revenue Fund, and the Social Services Special Revenue Fund.

7. Pension Plan

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. Plan investments are reported at fair value. The pension liability is liquidated through the General Fund, Road and Bridge Special Revenue Fund, and Social Services Special Revenue Fund.

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.

**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)

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

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

Unassigned – the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In governmental funds other than the General Fund, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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. Minimum Fund Balance

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

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The County Board will set aside amounts by resolution as deemed necessary that can only be expended when major flood repairs exist as the need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely. The County did not identify an amount for stabilization as of December 31, 2017.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

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

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

II. Stewardship, Compliance, and Accountability

A. Land Management

The County manages approximately 356 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.

B. 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, 2017, no county property taxes had been abated.

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, 2017, \$520,251.02 in county property taxes had been abated.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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, 2017, are reported as follows:

	Primary Government	Discretely Presented Component Unit
Government-wide statement of net position		
Cash and pooled investments	\$ 6,532,068	\$ 250,043
Investments	140,000	1,962,796
Statement of fiduciary net position		
Cash and pooled investments	<u>5,798,691</u>	<u>-</u>
Total cash and investments	<u>\$ 12,470,759</u>	<u>\$ 2,212,839</u>
Cash on hand	\$ 1,800	\$ -
Checking accounts	(195,011)	96,039
Savings accounts	970,049	154,004
Certificates of deposit	1,240,000	70,000
Investments	<u>10,453,921</u>	<u>1,892,796</u>
Total deposits, cash on hand, and investments	<u>\$ 12,470,759</u>	<u>\$ 2,212,839</u>

Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's investment policy provides that full collateralization will be required on all demand deposit accounts. As of December 31, 2017, 86 percent of the County's and the discretely presented component units were not exposed to custodial credit risk.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

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.

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 resulting from the over concentration of assets in a specific maturity, issuer, or class of securities. The risks of market price volatility shall be controlled through maturity diversification and duration management.

At December 31, 2017, the County had the following investments and maturities:

	Fair Value	Less Than 1 Year	1-5 Years	5+ Years
Certificates of Deposit	\$ 5,775,563	\$ 3,811,718	\$ 1,963,846	\$ -
Fixed Income Securities - Government Obligations	1,271,344	199,458	1,071,886	-
Money Markets	409,375	409,375	-	-
Municipal Bonds	3,093,677	453,424	2,444,253	196,000
<b>Total Investments</b>	<b>\$ 10,549,959</b>	<b>\$ 4,873,975</b>	<b>\$ 5,479,985</b>	<b>\$ 196,000</b>
	100%	46%	52%	2%

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

Credit Risk

Generally, 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, 2017, is as follows:

	S&P Rating	Fair Value
FHLB	AA+	\$ 775,853
FFCB	AA+	495,492
Negotiable CD's	N/A	5,775,562
Municipal Bonds ( by S&P rating)	AAA	461,586
Municipal Bonds ( by S&P rating)	AA	384,765
Municipal Bonds ( by S&P rating)	AA-	196,000
Municipal Bonds ( by S&P rating)	A+	249,738
Municipal Bonds ( by S&P rating)	AA+	298,581
Municipal Bonds ( by S&P rating)	N/R	1,503,007
Money Market	AAA	409,375
		<b>\$ 10,549,959</b>

N/R – not rated

N/A – not applicable

Custodial Credit Risk

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

At December 31, 2017, the following investments held by the County's agent in the County's name may be subject to custodial credit risk:

Money Market	\$ 372,983
Federal Home Loan Bank	706,882
Federal Farm Credit Bank	451,444
Negotiable CD's	4,924,974
Municipal GO Bonds	2,593,677
	<b>\$ 9,049,960</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

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, 2017, the following County investments were subject to concentration of credit risk:

Investment	Fair Value	Concentration Percentage
Federal Home Loan Bank	\$ 775,853	7.35%
Federal Farm Credit Bank	495,492	4.70%
Negotiable CD's	5,775,562	54.74%
Municipal Bonds	3,093,677	29.32%
Money Market/Cash	409,375	3.88%
Total:	<u>\$ 10,549,959</u>	<u>100.00%</u>

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, 2017, the County had the following recurring fair value measurements:

	December 31, 2017	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	\$ 3,093,677	\$ -	\$ 3,093,677
Money Markets	409,375	409,375	-
Negotiable Certificates of Deposit	5,775,562	-	5,775,562
Total Investments	<u>\$ 9,278,614</u>	<u>\$ 409,375</u>	<u>\$ 8,869,239</u>

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, 2017.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

2. Receivables

Receivables as of December 31, 2017, for the County's governmental activities, including any applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>
Taxes	\$ 72,979
Special assessments	797
Accounts	26,794
Accrued interest	33,188
Due from other governments	2,138,166
Total	\$ 2,271,924

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

Receivables as of December 31, 2017, for the discretely presented component unit, including any applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Accounts	\$ 58,291	\$ -
Due from other governments	381,408	-
Accrued interest	3,312	-
Special assessments	412,025	404,296
Surcharge for debt repayment	6,380	-
Total	\$ 861,416	\$ 404,296



**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, 2017, was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 1,578,672	\$ 309	\$ -	\$ 1,578,981
Construction in progress	1,713,109	1,911,933	636,915	2,988,127
Total capital assets not depreciated	<u>\$ 3,291,781</u>	<u>\$ 1,912,242</u>	<u>\$ 636,915</u>	<u>\$ 4,567,108</u>
Capital assets being depreciated				
Infrastructure	\$ 77,590,817	\$ 2,290,505	\$ -	\$ 79,881,322
Buildings and improvements	3,462,231	-	-	3,462,231
Machinery and equipment	3,167,972	154,652	53,366	3,269,258
Total capital assets being depreciated	<u>\$ 84,221,020</u>	<u>\$ 2,445,157</u>	<u>\$ 53,366</u>	<u>\$ 86,612,811</u>
Less: accumulated depreciation for				
Infrastructure	\$ 23,781,491	\$ 1,531,222	\$ -	\$ 25,312,713
Buildings and improvements	2,285,245	126,749	-	2,411,994
Machinery and equipment	2,033,325	227,955	53,366	2,209,914
Total accumulated depreciation	<u>\$ 28,100,061</u>	<u>\$ 1,885,926</u>	<u>\$ 53,366</u>	<u>\$ 29,932,621</u>
Total capital assets, depreciated, net	<u>\$ 56,120,959</u>	<u>\$ 559,231</u>	<u>\$ -</u>	<u>\$ 56,680,190</u>
Primary Government Capital Assets, Net	<u>\$ 59,412,740</u>	<u>\$ 2,471,473</u>	<u>\$ 636,915</u>	<u>\$ 61,247,298</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	\$ 103,517
Public safety	65,414
Highways and streets, including depreciation of infrastructure assets	<u>1,716,995</u>
Total Depreciation Expense	<u>\$ 1,885,926</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, 2017 was as follows:

Component Unit	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 109,045	\$ -	\$ -	\$ 109,045
Capital assets being depreciated				
Distribution system	\$ 10,023,142	\$ -	\$ -	\$ 10,023,142
Buildings and pumps	4,225,544	-	-	4,225,544
Machinery and equipment	232,269	-	-	232,269
Tower reconditioning	304,690	-	-	304,690
Total capital assets being depreciated	\$ 14,785,645	\$ -	\$ -	\$ 14,785,645
Less: accumulated depreciation for				
Distribution system	\$ 3,230,494	\$ 116,371	\$ -	\$ 3,346,865
Buildings and pumps	1,762,825	113,992	-	1,876,817
Machinery and equipment	151,805	13,331	-	165,136
Tower reconditioning	140,880	15,234	-	156,114
Total accumulated depreciation	\$ 5,286,004	\$ 258,928	\$ -	\$ 5,544,932
Total capital assets, depreciated, net	\$ 9,499,641	\$ (258,928)	\$ -	\$ 9,240,713
Component Unit				
Capital Assets, Net	\$ 9,608,686	\$ (258,928)	\$ -	\$ 9,349,758

\$258,928 of depreciation expense was charged to the functions of the North Kittson Rural Water System.

Construction Contracts

The County has two active construction contracts as of December 31, 2017. The contracts include the following:

	Spent-to-Date	Remaining Contracts
Governmental activities		
Highways and streets	\$ 1,297,965	\$ 44,254

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

A. Assets and Deferred Outflows of Resources(Continued)

4. Deferred Outflows of Resources

Deferred outflows of resources - deferred pension outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date and also differences between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position. Deferred pension outflows for the year ended December 31, 2017, were \$2,269,876.

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2017, 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	\$ 267	Reimbursement for services
General Fund	Unorganized Townships Special Revenue Fund	40	Reimbursement for services
Road & Bridge Special Revenue Fund	General Fund	1,767	Reimbursement for services
Road & Bridge Special Revenue Fund	Unorganized Township Special Revenue Fund	1,156	Reimbursement for services
Total Due To/From Other Funds:		<u>\$ 3,230</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	Road & Bridge Special Revenue Fund	\$ 640,000	Cash flows
General Fund	Ditch Special Revenue Fund	69,900	Cash flows
Total Advances From/To Other Funds		<u>\$ 709,900</u>	

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2017 were as follows:

Accounts	\$	213,869
Salaries		181,891
Contracts		123,068
Due to other governments		92,557
Total Payables	\$	611,385

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

2. 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 \$364,775 at December 31, 2017, is available to employees in the event of illness-related absences and is not paid to them at termination.

3. Changes in Long-Term Liabilities

Long-term liability for activity for the governmental activities for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Net OPEB Payable	\$ 199,915	\$ 5,328	\$ -	\$ 205,243	\$ -
Compensated Absences	474,101	324,258	329,224	469,135	173,662
Net Pension Liability	5,334,138	-	1,993,296	3,340,842	-
Long-Term Liabilities	\$ 6,008,154	\$ 329,586	\$ 2,322,520	\$ 4,015,220	\$ 173,662

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Deferred Inflows of Resources – Unavailable Revenue

Deferred inflows of resources – unavailable revenue consists of taxes, special assessments, state and/or federal grants and state highway users tax allotments, and other receivables 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, 2017, are summarized below by fund:

	Taxes	Special Assessments	County State Aid Highway Allotment	Total Unavailable
Major governmental funds				
General	\$ 42,180	\$ -	\$ -	\$ 42,180
Road and Bridge	10,789	-	1,527,822	1,538,611
Human Services	12,710	-	-	12,710
Unorganized Township	62	-	-	62
Ditch	-	518	-	518
	<u>\$ 65,741</u>	<u>\$ 518</u>	<u>\$ 1,527,822</u>	<u>\$ 1,594,081</u>

5. 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 \$2,574. The balance remaining as of December 31, 2017 is \$497,426.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

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

Debt Service Requirements

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

Year Ending December 31	General Obligation Water System Revenue Crossover Refunding Bonds, Series 2011A	
	Principal	Interest
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
	\$ 500,000	\$ 44,612
Less: Bond discount	(2,574)	-
Total	\$ 497,426	\$ 44,612

Changes in Long-Term Liabilities

Long-term liability activity for the discretely presented component unit for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Water Revenue Crossover Refunding Bonds, Series 2011A	\$ 595,000	\$ -	\$ 95,000	\$ 500,000	\$ 95,000
Less: Bond discounts	(3,088)	-	(514)	(2,574)	(514)
Compensated Absences	43,934	22,309	21,406	44,837	14,526
Net pension liability	227,346	-	23,060	204,286	-
Long-Term Liabilities	\$ 863,192	\$ 22,309	\$ 138,952	\$ 746,549	\$ 109,012

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds (Continued)

D. Fund Balances

Fund balances at year-end December 31, 2017, were as follows:

<b>Fund Balances</b>	<b>General</b>	<b>Road and Bridge</b>	<b>Social Services</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
Non-spendable					
Advances to other funds	\$ 709,900	\$ -	\$ -	\$ -	\$ 709,900
Inventories	-	266,689	-	-	266,689
Total Nonspendable	<u>\$ 709,900</u>	<u>\$ 266,689</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 976,589</u>
Restricted for					
Aquatic invasive species Conservation	\$ 22,960	-	-	-	\$ 22,960
Corrections supervision	-	-	-	464,359	464,359
County State Aid Highway Allotment	8,101	-	-	-	8,101
DWI assessment	-	700,424	-	-	700,424
Enhanced 911	5,495	-	-	-	5,495
Handgun permits	293,701	-	-	-	293,701
Help America Vote Act	22,370	-	-	-	22,370
Law library	70,024	-	-	-	70,024
Missing heirs	1,921	-	-	-	1,921
Pit restoration	6,320	-	-	-	6,320
Probation	-	284,645	-	-	284,645
Recorder's equipment	1,640	-	-	-	1,640
Riparian protection aid	115,645	-	-	-	115,645
SCORE	147,943	-	-	-	147,943
Sheriff's contingent fund	54,834	-	-	-	54,834
Technology	1,927	-	-	-	1,927
Vehicle seizures	146,045	-	-	-	146,045
Victim assistance	1,534	-	-	-	1,534
Water planning	2,997	-	-	-	2,997
	6,544	-	-	-	6,544
Total restricted	<u>\$ 910,001</u>	<u>\$ 985,069</u>	<u>\$ -</u>	<u>\$ 464,359</u>	<u>\$ 2,336,469</u>
Assigned to					
General government	\$ 1,627,874	-	-	-	\$ 1,627,874
Highways and streets	-	-	-	156,455	156,455
Public safety	185,208	-	-	-	185,208
Social services	-	-	1,828,627	-	1,828,627
Total assigned	<u>\$ 1,813,082</u>	<u>\$ -</u>	<u>\$ 1,828,627</u>	<u>\$ 156,455</u>	<u>\$ 3,798,164</u>
Unassigned	<u>\$ 1,230,406</u>	<u>\$ (1,293,392)</u>	<u>\$ -</u>	<u>\$ (65,981)</u>	<u>\$ (128,967)</u>
Total Fund Balances	<u><u>\$ 4,663,389</u></u>	<u><u>\$ (41,634)</u></u>	<u><u>\$ 1,828,627</u></u>	<u><u>\$ 554,833</u></u>	<u><u>\$ 7,005,215</u></u>

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.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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

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 2017, there were approximately 59 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		7,997
Adjustments to Annual Required Contribution		<u>(11,337)</u>
Annual OPEB cost (expense)	\$	38,974
Contributions made		<u>(33,646)</u>
Increase in net OPEB obligation	\$	5,328
Net OPEB Obligation - January 1, 2017		<u>199,915</u>
Net OPEB Obligation - December 31, 2017	\$	<u><u>205,243</u></u>

The County's annual OPEB cost for December 31, 2017, was \$38,974. The percentage of annual OPEB cost contributed to the plan was 86 percent, and the net OPEB obligation for 2017 was \$205,243. For the required three-year trend information, refer to the Required Supplementary Information.

C. 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 11.8 percent.



**KITTSON COUNTY  
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IV. Other Post-Employment Benefits (OPEB) (Continued)

D. 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 24 years.

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.

**KITTSOON COUNTY  
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V. Defined Benefit Pension Plans

A. Plan Description (Continued)

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.

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.

**KITTSOON COUNTY  
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V. Defined Benefit Pension Plans

B. Benefits Provided (Continued)

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.

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 2017. 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 2017. Kittson County's contributions to the General Employees Fund for the year ended December 31, 2017, was \$221,585. The North Kittson Rural Water System contributions to the General Employees Fund for the year ended December 31, 2017, was \$15,481. 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 2017. Kittson County was required to contribute 16.20 percent of pay for members in calendar year 2017. Kittson County's contributions to the Police and Fire Fund for the year ended December 31, 2017, were \$64,268. Kittson County's contributions were equal to the required contributions as set by state statute.

**KITTSON COUNTY  
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V. Defined Benefit Pension Plans

C. Contributions (Continued)

3. Local Government Correctional Fund Contributions

In calendar year 2017 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 2017. The County's contributions to the Correctional Fund for the year ended December 31, 2017 were \$25,930. 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, 2017, Kittson County reported a liability of \$2,400,295, and the North Kittson Rural Water System reported a liability of \$204,286, 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 2017.

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 \$30,209, and the North Kittson Rural Water System totaled \$2,551. The net pension liability was measured as of June 30, 2017, 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 .0376 percent which was a decrease of .0016 percent from its proportion measured as of June 30, 2016. The North Kittson Rural Water System's proportion share was .0032 percent, which was an increase of .0004 percent from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, Kittson County recognized pension expense of \$66,444, and the North Kittson Rural Water System recognized pension expense of \$76,106 for their proportionate share of the General Employees Plan's pension expense. In addition, Kittson County recognized an additional \$872 as pension expense (and grant revenue) and the North Kittson Rural Water System recognized and additional \$74 as pension expense for their proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans

D. Pension Costs

1. General Employees Retirement Fund Pension Costs (Continued)

At December 31, 2017, 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	\$ 79,106	\$ 160,172
Changes in actuarial assumptions	415,215	240,629
Difference between projected and actual investment earnings	438,763	407,552
Changes in proportion	21,508	137,947
Contributions paid to PERA subsequent to the measurement date	<u>92,568</u>	<u>-</u>
Total	<u>\$ 1,047,160</u>	<u>\$ 946,300</u>

At December 31, 2017, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 4,505
Changes in actuarial assumptions	9,197	-
Difference between projected and actual investment earnings	-	12,484
Changes in proportion	29,784	-
Contributions paid to PERA subsequent to the measurement date	<u>7,738</u>	<u>-</u>
Total	<u>\$ 46,719</u>	<u>\$ 16,989</u>

\$92,568 reported as deferred outflows of resources related to pensions resulting from Kittson County's contributions, and \$7,738 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans

D. Pension Costs

1. General Employees Retirement Fund Pension Costs (Continued)

Year ended December 31:	Pension Expense Amount	
	Kittson County	North Kittson Rural Water System
2018	\$ 53,855	\$ 7,249
2019	129,167	20,339
2020	(72,840)	3,078
2021	(101,890)	(8,674)
2022	-	-

2. Public Employees Police and Fire Fund Pension Costs

At December 31, 2017, Kittson County reported a liability of \$513,045 for its proportionate share of the Police and Fire Fund’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. 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, 2016, through June 30, 2017, relative to the total employer contributions received from all PERA’s participating employers.

At June 30, 2017, Kittson County’s proportion was .038 percent which was a decrease of .002 percent from its proportion measured as of June 30, 2016.

There were no provision changes during the measurement period.

For the year ended December 31, 2017, Kittson County recognized pension expense of (\$79,329) 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, 2017 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.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans

D. Pension Costs

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

As of December 31, 2017, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 11,809	\$ 146,587
Changes in actuarial assumptions	706,760	728,397
Difference between projected and actual investment earnings	180,761	162,797
Changes in proportion	-	103,637
Contributions paid to PERA subsequent to the measurement date	31,976	-
<b>Total</b>	<b>\$ 931,306</b>	<b>\$ 1,141,418</b>

\$31,796 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, 2017. 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
2018	\$ (5,023)
2019	(5,024)
2020	(25,810)
2021	(49,533)
2022	(156,698)

3. Local Government Correctional Plan Pension Costs

At December 31, 2017, the County reported a liability of \$427,502 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was .150% which remains unchanged from its proportion measured as of June 30, 2016.

There were no provision changes during the measurement period.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans

D. Pension Costs

3. Local Government Correctional Plan Pension Costs (Continued)

For the year ended December 31, 2017 the County recognized pension expense of \$31,736 for its proportionate share of the Correctional Plan's pension expense.

At December 31, 2017, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 286	\$ 6,915
Changes in actuarial assumptions	232,749	74,415
Difference between projected and actual investment earnings	44,967	47,601
Contributions paid to PERA subsequent to the measurement date	13,407	-
Total	\$ 291,409	\$ 128,931

\$13,407 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, 2017. 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
2018	\$ 92,135
2019	95,092
2020	(26,255)
2021	(11,901)
2022	-

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, 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%



**KITTSON COUNTY  
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V. Defined Benefit Pension Plans

E. Actuarial Assumptions (Continued)

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, 2017 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 2017:

General Employees Retirement Fund

1. The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.
2. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044, and 2.5 percent per year thereafter.

Public Employees Police and Fire Fund

1. Assumed salary increases were changed as recommended in the June 30, 2017 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
2. Assumed rates of retirement were changed, resulting in fewer retirements.
3. The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
4. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disable annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans

E. Actuarial Assumptions

Public Employees Police and Fire Fund (Continued)

5. Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
6. Assumed percentage of married female members was decreased from 65 percent to 60 percent.
7. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
8. The assumed percentage of female members electing Joint and Survivor annuities was increased.
9. The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064, and 2.50 percent thereafter.

Local Government Correctional Fund

1. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to MP-2016).
2. The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1 percent for non-vested members.
3. The Single Discount Rate was changed from 5.31 percent per annum to 5.96 percent per annum.

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:

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

V. Defined Benefit Pension Plans

E. Actuarial Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%. 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 and the Police and Fire 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 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, 2061. Beginning in fiscal years ended June 30, 2062, when projected benefit payments exceed the funds projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 3.56% 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 5.96% 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 3.56% thereafter.

G. 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	1% Decrease in Discount Rate (6.50%)	Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
Kittson County	\$ 3,723,036	\$ 2,400,295	\$ 1,317,392
North Kittson Rural Water System	\$ 316,863	\$ 204,286	\$ 112,121

**KITTSOON COUNTY  
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V. Defined Benefit Pension Plans

G. Pension Liability Sensitivity (Continued)

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

Kittson County	1% Decrease in Discount Rate (4.6%)	Discount Rate (5.6%)	1% Increase in Discount Rate (6.6%)
Proportionate share of Net Pension Liability	\$ 354,325	\$ 181,797	\$ 39,260

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	\$ 704,469	\$ 427,502	\$ 211,325

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org).

VI. Public Employees Defined Contribution Plan

Eight 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.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

VI. Public Employees Defined Contribution Plan (Continued)

Total contributions made by Kittson County during fiscal year 2017 were:

Contribution Amount		Percentage of Cover Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$ 7,733	\$ 7,733	5%	5%	5%

VII. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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.

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 2017 and 2018. 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.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

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

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, Mahnomens, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The Board was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the region.

Control is vested in the Board, which is composed of 14 representatives appointed by each Board of County Commissioners. Kittson County's responsibility does not extend beyond making this appointment.

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. Member counties do not receive a financial benefit or burden as a result of membership. In 2017, Kittson County did not make a contribution to the Board.

Complete financial information can be obtained from the Clay County Sheriff's Office, 915 9<sup>th</sup> Avenue North, Moorhead, Minnesota 56560.

Karlstad Mobile Relay Station

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

Control of the Karlstad Mobile Relay Station is vested in an advisory board which is composed of one representative appointed by each county board and the Kittson County Administrator or Deputy 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, 2017.

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

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

VII. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Mar-Kit Landfill

The Mar-Kit Landfill was established in 1991 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Kittson and Marshall Counties. The purpose of the Landfill is to allow for the purchase, lease, development, operation, and/or management of a sanitary landfill and/or processing facility to provide for the disposition of solid waste materials. The facility is located in Hallock, Minnesota, with administrative duties performed by the Kittson County 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 \$27,250 for recycling and cleaning costs to the Landfill. Kittson County, in an agent capacity, reports the cash transactions of the Landfill as an agency fund on its financial statements.

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

Northwest Minnesota Regional Radio Board

The Northwest Minnesota Regional Radio Board was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minnesota Statutes, §§ 403.39 and 471.59. Members include Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau counties and the City of Moorhead.

The purpose of the Northwest Minnesota Regional Radio Board is to provide regional administration for the installation, operation, and maintenance of local and regional enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota.

Control is vested in the Northwest Minnesota Regional Radio Board, which is composed of one county commissioner from each member county by their respective County Board and one city council member from the member City appointed by the City Council, as provided in the Northwest Minnesota Regional Radio Board's bylaws.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

VII. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northwest Minnesota Regional Radio Board (Continued)

In the event of dissolution of the Northwest Minnesota Regional Radio Board, all property, assets, and funds of the Board are to be distributed to the parties of the agreement upon termination in direct proportion to their participation and contribution. Any city or county that has withdrawn from the agreement prior to termination of the Board shall share in the distribution of property, assets, and funds of the Board only to the extent they shared in the original expense.

The Northwest Minnesota Regional Radio Board has no long-term debt. Financing is provided by appropriations from member parties and by state and federal grants. Kittson County contributed \$2,500 to the Northwest Emergency Communications Board for the year ended December 31, 2017.

Complete financial information can be obtained from Northwest Minnesota Regional Radio Board, c/o Greater Minnesota EMS, 2301 Johanneson Avenue NW, Suite 103, Bemidji, Minnesota 56601.

Northwest Service Cooperative (NWSC)

The Northwest Service Cooperative (NWSC) was established in February 1977, pursuant to Minn. Stat. §§ 471.59 and 123.582 (now Minn. Stat. § 123A.21). The NWSC is located in State Development Regions One and Two, which includes 12 counties covering a total of 14,853 square miles. These are the most sparsely populated regions of the state, with only 11 persons per square mile. The regions are known as “Pines to Prairie.” The NWSC provides services to all school districts, and many cities, counties, and other governmental agencies in the northwest region. The Northwest Service Cooperative’s purpose is to meet or exceed the needs of participating members by developing and delivering high quality, cost-effective services and programs that will support the activities of its members.

The NWSC is governed by a Board of Directors consisting of school board members elected at large by their peers, one city representative, with a maximum of three at-large appointees and three ex-officio superintendents. Adequate rates are charged so that the members do not experience additional benefit or burden. The County’s participation consists of annual dues of \$250 plus the cost of health plan premiums of \$642,529 in 2017.

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

Northwestern Counties Data Processing Security Association (NCDPSA)

The Northwestern Counties Data Processing Security Association (NCDPSA) 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.



**KITTSON COUNTY  
HALLOCK, MINNESOTA**

VII. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northwestern Counties Data Processing Security Association (NCDPSA) (Continued)

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, 2017. 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 \$6,122 to the Waste Management Group for the year ended December 31, 2017. Clearwater County, in an agent capacity, reports the cash transactions of the Waste Management Group as an agency fund on its financial statements.

Separate financial information can be obtained from the Waste Management Group, P.O. Box 186, Bagley, Minnesota 56621.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

VII. Summary of Significant Contingencies and Other Items

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

Control of the Center is vested in the Northwestern Minnesota Juvenile Center Joint Powers Board, which is composed of 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 position of the Center will 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. Adequate rates are charged so that the member counties do not experience any additional financial benefit or burden. 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, Beltrami County Courthouse, P.O. Box 247, Bemidji, Minnesota 56601.

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 Quin County Community Health Service, 136 W. Minnesota Ave., Newfolden, Minnesota 56738.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

VII. 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 2017.

Complete financial information can be obtained from the Lake of the Woods County Auditor-Treasurer'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**

VII. 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.

Financing is provided primarily from federal grants provided through the Job Training Partnership Act of 1982. In the event of dissolution of the Joint Powers Agreement, the net position of the Joint Powers Board at that time shall be disposed of in accordance with law.

Complete financial information can be obtained from the Northwest Regional Development Commission, 115 South Main, 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**

VII. 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 2017, the County contributed \$3,038 to the Collaborative.

Kittson Economic Development Authority (EDA)

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.

Minnesota Counties Computer Cooperative (MCCC)

The Minnesota Counties Computer Cooperative (MCCC) was established in 1978 pursuant to Minnesota Statute, § 471.59 and works with all Minnesota Counties as a joint powers organization facilitating services and training, providing software and other cost-effective measures to substantially reduce technology costs for counties, cities, and agencies.

Control of the Cooperative is vested in a Board of Directors which is composed of four officers and five representatives appointed by the member counties. The County's responsibility does not extend beyond making this appointment.

Kittson County paid dues of \$9,298 and contract payments of \$59,567 to the MCCC for the year ended 2017. Complete financial information can be obtained from the Minnesota Counties Computer Cooperative office, 100 Empire Dr. #201, St. Paul, MN 55103.

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Aitkin, Becker, Beltrami, Big Stone, Clay, Clearwater, Cottonwood, Douglas, Grant, Itasca, Kittson, Koochiching, Lake of the Woods, Mahnomon, Marshall, McLeod, Mille Lacs, Morrison, Norman, Pennington, Polk, Pope, Red Lake, Renville, Roseau, Stevens, Todd, Traverse, Wadena, Wantonwan, and Wilkin Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of 12 appointees, each with an alternate, who is appointed annually by each respective County Board. Kittson County's responsibility does not extend beyond making this appointment.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

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

E. Jointly-Governed Organizations (Continued)

Northwest Minnesota Council of Collaboratives

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

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

Financing is provided by the collection of membership dues from the participating collaboratives and agency partners. Tri-County Community Corrections acts as fiscal agent for the Northwest Minnesota Council of Collaboratives and reports the cash transactions of the Council of Collaboratives as an agency fund in its financial statements.

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 (HRA)

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 \$64,000 to the Library for the year ended December 31, 2017.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

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

E. Jointly-Governed Organizations (Continued)

Northwest Workforce Service Area

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

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

The Northwest Workforce Service Area has no long-term debt. Financing is provided by state and local grants.

Complete financial information can be obtained from the Northwest Regional Development Commission, 115 South Main, Warren, Minnesota 56762.

Roseau River Watershed District

The Roseau River Watershed District was formed pursuant to Minnesota Statute, § 103D.201, effective June 17, 1963, and includes land within Beltrami, Kittson, Lake of the Woods, 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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,540,524	\$ 2,540,524	\$ 2,444,905	\$ (95,619)
Licenses and permits	10,250	10,250	9,770	(480)
Intergovernmental	1,027,948	1,027,948	1,106,170	78,222
Charges for services	152,900	152,900	137,905	(14,995)
Fines and forfeitures	4,500	4,500	3,940	(560)
Investment earnings	90,250	90,250	117,388	27,138
Miscellaneous	174,587	174,587	167,796	(6,791)
<b>Total Revenues</b>	<b>\$ 4,000,959</b>	<b>\$ 4,000,959</b>	<b>\$ 3,987,874</b>	<b>\$ (13,085)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 180,283	\$ 180,283	\$ 206,710	\$ (26,427)
District court	35,000	35,000	37,208	(2,208)
Law library	4,000	4,000	3,909	91
County administration	428,165	428,165	423,032	5,133
County assessor	296,327	296,327	301,896	(5,569)
Elections	200	200	3,271	(3,071)
Professional services	21,150	21,150	14,526	6,624
Data processing	146,700	146,700	167,143	(20,443)
Attorney	98,591	98,591	99,045	(454)
Recorder	152,757	152,757	149,375	3,382
Planning and zoning	39,781	39,781	36,285	3,496
Surveyor	2,000	2,000	300	1,700
Buildings and grounds	250,179	250,179	249,666	513
GIS/LIS	5,000	5,000	4,748	252
Veterans service officer	40,463	40,463	39,552	911
Insurance	51,800	51,800	51,578	222
Other general government	65,281	65,281	57,310	7,971
<b>Total general government</b>	<b>\$ 1,817,677</b>	<b>\$ 1,817,677</b>	<b>\$ 1,845,554</b>	<b>\$ (27,877)</b>
<b>Public safety</b>				
Sheriff	\$ 790,233	\$ 790,233	\$ 782,318	\$ 7,915
Boat and water safety	500	500	-	500
Community corrections	236,758	236,758	218,171	18,587
Coroner	9,980	9,980	11,601	(1,621)
Enhanced 911	34,511	34,511	33,117	1,394
Emergency management	50,673	50,673	49,142	1,531
Fire protection	500	500	7,000	(6,500)
Local Emergency Planning Commission	1,000	1,000	718	282
Operation Stonegarden	72,796	72,796	60,869	11,927
Probation and parole	31,000	31,000	17,117	13,883
Transmission tower	6,500	6,500	3,865	2,635
Victim assistance	100	100	-	100
Other public safety	2,000	2,000	2,000	-
<b>Total public safety</b>	<b>\$ 1,236,551</b>	<b>\$ 1,236,551</b>	<b>\$ 1,185,918</b>	<b>\$ 50,633</b>

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

***Schedule 1  
(Continued)***

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Sanitation</b>				
Recycling	\$ 90,188	\$ 90,188	\$ 68,134	\$ 22,054
Solid waste	27,172	27,172	26,667	505
<b>Total sanitation</b>	<b>\$ 117,360</b>	<b>\$ 117,360</b>	<b>\$ 94,801</b>	<b>\$ 22,559</b>
<b>Health</b>				
Ambulance	\$ 26,640	\$ 26,640	\$ 26,640	\$ -
Hospice	7,500	7,500	7,500	-
Kittson wellness	1,600	1,600	851	749
<b>Total health</b>	<b>\$ 35,740</b>	<b>\$ 35,740</b>	<b>\$ 34,991</b>	<b>\$ 749</b>
<b>Culture and recreation</b>				
Historical society	\$ 60,000	\$ 60,000	\$ 60,000	\$ -
Regional library	64,000	64,000	64,000	-
Snowmobile and ski trails	100,000	100,000	95,235	4,765
Veterans organizations	500	500	500	-
Other	-	-	20,000	(20,000)
<b>Total culture and recreation</b>	<b>\$ 224,500</b>	<b>\$ 224,500</b>	<b>\$ 239,735</b>	<b>\$ (15,235)</b>
<b>Conservation of natural resources</b>				
Agricultural inspection	\$ 11,330	\$ 11,330	\$ 11,330	\$ -
Agricultural society	22,500	22,500	22,500	-
Aquatic Invasive Species	18,807	18,807	17,575	1,232
County extension	118,527	118,527	120,691	(2,164)
Predator and weed control	2,600	2,600	2,036	564
Soil and water conservation	131,702	131,702	151,524	(19,822)
Water planning	3,075	3,075	-	3,075
<b>Total conservation of natural resources</b>	<b>\$ 308,541</b>	<b>\$ 308,541</b>	<b>\$ 325,656</b>	<b>\$ (17,115)</b>
<b>Economic development</b>				
Kittson Office of Economic Development	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Tax abatement	108,000	108,000	96,714	11,286
<b>Total economic development</b>	<b>\$ 118,000</b>	<b>\$ 118,000</b>	<b>\$ 106,714</b>	<b>\$ 11,286</b>
<b>Total Current</b>	<b>\$ 3,858,369</b>	<b>\$ 3,858,369</b>	<b>\$ 3,833,369</b>	<b>\$ 25,000</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

***Schedule 1  
(Continued)***

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures (Continued)</b>				
<b>Capital outlay</b>				
General government	\$ 27,500	\$ 27,500	\$ -	\$ 27,500
Public safety	60,000	60,000	27,387	32,613
<b>Total capital outlay</b>	<b>\$ 87,500</b>	<b>\$ 87,500</b>	<b>\$ 27,387</b>	<b>\$ 60,113</b>
<b>Total Expenditures</b>	<b>\$ 3,945,869</b>	<b>\$ 3,945,869</b>	<b>\$ 3,860,756</b>	<b>\$ 85,113</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 55,090</b>	<b>\$ 55,090</b>	<b>\$ 127,118</b>	<b>\$ 72,028</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	17,914	17,914	-	(17,914)
<b>Net Change in Fund Balance</b>	<b>\$ 73,004</b>	<b>\$ 73,004</b>	<b>\$ 127,118</b>	<b>\$ 54,114</b>
<b>Fund Balance - January 1</b>	<b>4,536,271</b>	<b>4,536,271</b>	<b>4,536,271</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,609,275</b>	<b>\$ 4,609,275</b>	<b>\$ 4,663,389</b>	<b>\$ 54,114</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 656,581	\$ 656,581	\$ 602,975	\$ (53,606)
Intergovernmental	4,952,962	5,528,962	4,881,322	(647,640)
Charges for services	597,150	597,150	512,035	(85,115)
Miscellaneous	57,650	57,650	85,195	27,545
<b>Total Revenues</b>	<b>\$ 6,264,343</b>	<b>\$ 6,840,343</b>	<b>\$ 6,081,527</b>	<b>\$ (758,816)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 467,819	\$ 467,129	\$ 492,271	\$ (25,142)
Engineering	422,408	422,408	431,885	(9,477)
Maintenance	1,627,926	1,627,926	1,362,876	265,050
Construction	3,209,100	3,209,100	3,046,986	162,114
Equipment maintenance and shop	306,490	306,490	367,511	(61,021)
Township roads	-	-	518,742	(518,742)
<b>Total Current</b>	<b>\$ 6,033,743</b>	<b>\$ 6,033,053</b>	<b>\$ 6,220,271</b>	<b>\$ (187,218)</b>
<b>Capital outlay</b>				
Highways and streets	230,600	230,600	127,265	103,335
<b>Total Expenditures</b>	<b>\$ 6,264,343</b>	<b>\$ 6,263,653</b>	<b>\$ 6,347,536</b>	<b>\$ (83,883)</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ 576,690</b>	<b>\$ (266,009)</b>	<b>\$ (842,699)</b>
<b>Fund Balance - January 1</b>	<b>308,052</b>	<b>308,052</b>	<b>308,052</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>(83,677)</b>	<b>(83,677)</b>
<b>Fund Balance - December 31</b>	<b>\$ 308,052</b>	<b>\$ 884,742</b>	<b>\$ (41,634)</b>	<b>\$ (926,376)</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 757,003	\$ 757,003	\$ 713,183	\$ (43,820)
Intergovernmental	601,831	601,831	820,246	218,415
Charges for services	79,710	79,710	117,506	37,796
Investment earnings	-	-	129	129
Miscellaneous	59,088	59,088	123,973	64,885
<b>Total Revenues</b>	<b>\$ 1,497,632</b>	<b>\$ 1,497,632</b>	<b>\$ 1,775,037</b>	<b>\$ 277,405</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 448,261	\$ 433,988	\$ 529,654	\$ (95,666)
Social services	1,101,716	1,168,187	1,118,997	49,190
<b>Total Expenditures</b>	<b>\$ 1,549,977</b>	<b>\$ 1,602,175</b>	<b>\$ 1,648,651</b>	<b>\$ (46,476)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (52,345)</b>	<b>\$ (104,543)</b>	<b>\$ 126,386</b>	<b>\$ 230,929</b>
<b>Fund Balance - January 1</b>	<b>1,702,241</b>	<b>1,702,241</b>	<b>1,702,241</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,649,896</b>	<b>\$ 1,597,698</b>	<b>\$ 1,828,627</b>	<b>\$ 230,929</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 4**

**SCHEDULE OF FUNDING PROGRESS  
OTHER POST-EMPLOYMENT BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**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, 2017**

**PRIMARY GOVERNMENT**

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Employer Contribution</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
December 31, 2015	\$ 39,503	\$ 19,826	50%	\$ 187,910
December 31, 2016	39,174	27,169	69%	199,915
December 31, 2017	38,974	33,646	86%	205,243

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 6**

**SCHEDULE OF CONTRIBUTIONS  
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF MINNESOTA  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN**

<b>Fiscal Year Ending</b>	<b>Statutorily Required Contribution</b>	<b>Contributions in Relation to the Statutorily Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
December 31, 2015	\$ 169,068	\$ 169,068	\$ -	\$ 2,254,240	7.5%
December 31, 2016	180,696	180,696	-	2,412,924	7.5%
December 31, 2017	221,585	221,585	-	2,954,445	7.5%

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

<b>Fiscal Year Ending</b>	<b>Statutorily Required Contribution</b>	<b>Contributions in Relation to the Statutorily Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
December 31, 2015	\$ 60,843	\$ 60,843	\$ -	\$ 375,571	16.2%
December 31, 2016	62,310	62,310	-	384,750	16.2%
December 31, 2017	64,268	64,268	-	396,714	16.2%

**PUBLIC EMPLOYEES CORRECTIONAL FUND PENSION PLAN**

<b>Fiscal Year Ending</b>	<b>Statutorily Required Contribution</b>	<b>Contributions in Relation to the Statutorily Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
December 31, 2015	\$ 23,478	\$ 23,478	\$ -	\$ 268,318	8.75%
December 31, 2016	29,920	29,920	-	341,947	8.75%
December 31, 2017	25,930	25,930	-	296,340	8.75%

Note: This schedule is intended to show a ten year trend. Additional years will be reported as they become available.



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

Schedule 7

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**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 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%	78.2%
June 30, 2016	0.0392%	\$ 3,180,897	\$ 12,383	\$ 3,193,280	\$ 2,350,040	135.36%	68.9%
June 30, 2017	0.0376%	\$ 2,400,295	\$ 30,209	\$ 2,430,504	\$ 2,675,113	89.73%	75.9%

**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 Net Pension Liability and the Employer's Proportionate Share of the State of Minnesota's 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%	86.6%
June 30, 2016	0.0400%	\$ 1,605,270	\$ -	\$ 1,605,270	\$ 374,187	429.00%	63.9%
June 30, 2017	0.0380%	\$ 513,045	\$ 3,420	\$ 516,465	\$ 393,962	130.23%	85.4%

**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 Net Pension Liability and the Employer's Proportionate Share of the State of Minnesota's 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%	96.9%
June 30, 2016	0.1500%	\$ 547,971	\$ -	\$ 547,971	\$ 298,617	183.50%	58.2%
June 30, 2017	0.1500%	\$ 427,502	\$ -	\$ 427,502	\$ 317,131	134.80%	67.9%

**Note:** This schedule is intended to show a ten year trend. Additional years will be reported as they become available.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Commissioners	\$ 206,710	\$ 180,283	\$ (26,427)
District court	37,208	35,000	(2,208)
County assessor	301,896	296,327	(5,569)
Elections	3,271	200	(3,071)
Data processing	167,143	146,700	(20,443)
Attorney	99,045	98,591	(454)
Public Safety			
Coroner	11,601	9,980	(1,621)
Emergency management	55,880	46,791	(9,089)
Fire protection	7,000	500	(6,500)
Culture and recreation			
Other	20,000	-	(20,000)
Conservation of natural resources			
County extension	120,691	118,527	(2,164)
Soil and water conservation	151,524	131,702	(19,822)
Road and Bridge Special Revenue Fund			
Highways and streets			
Administration	492,271	467,129	(25,142)
Engineering	431,885	422,408	(9,477)
Equipment maintenance and shop	367,511	306,490	(61,021)
Township roads	518,742	-	(518,742)
Social Services Special Revenue Fund			
Human services			
Income maintenance	529,654	433,988	(95,666)

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

II. Other Post-Employment Benefits (OPEB)

The most recent actuarial valuation date is January 1, 2017. Since the last actuarial valuation as of January 1, 2014, 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 table was updated from RP-2000 Combined healthy Table projected to 2014 with Scale BB to the RP-2014 adjusted to 2006 White Collar Mortality Tables with MP-2016 Generational Improvement Scale (Blue Collar Tables for Police and Fire Personnel).
- The withdrawal and retirement tables for all employees were updated.
- The discount rate was changed from 4.50% to 3.50%.

Since the last actuarial valuation as of January 1, 2014, the following plan provisions have changed:

- The years of service required to be eligible for a benefit (implicit rate subsidy) was increased from three to five years.

Currently, three years actuarial data is available. For more information, refer to Schedules 5 and 6 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.

A. General Employees Retirement Fund

1. 2017 Changes in Actuarial Assumptions

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044, and 2.5 percent per year thereafter.

2. 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.

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- 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.
3. 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.
4. 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. Public Employees Police and Fire Fund**

1. 2017 Changes in Actuarial Assumptions
- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
  - Assumed rates of retirement were changed, resulting in fewer retirements.
  - The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
  - The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disable annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
  - Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
  - Assumed percentage of married female members was decreased from 65 percent to 60 percent.
  - Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.

**KITTSOON COUNTY  
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- The assumed percentage of female members electing Joint and Survivor annuities was increased.
  - The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064, and 2.50 percent thereafter.
  - 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.
2. 2016 Changes in Actuarial Assumptions:
- 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.
3. 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.
4. 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.

**B. Public Employees Correctional Fund**

1. 2017 Changes in Actuarial Assumptions
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to MP-2016).
  - The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1 percent for non-vested members.

**KITTSOON COUNTY  
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- The Single Discount Rate was changed from 5.31 percent per annum to 5.96 percent per annum.

1. 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 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  
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*Statement 1*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2017**

	<b>Special Revenue Funds</b>		<b>Total Nonmajor Special Revenue Funds (Exhibit 3)</b>
	<b>Ditch</b>	<b>Unorganized Townships</b>	
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 468,052	\$ 157,806	\$ 625,858
Taxes receivable - prior	-	62	62
Special assessments receivable - prior	797	-	797
<b>Total Assets</b>	<b>\$ 468,849</b>	<b>\$ 157,868</b>	<b>\$ 626,717</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>			
<b>Liabilities</b>			
Due to other funds	\$ -	\$ 1,196	\$ 1,196
Due to other governments	53	155	208
Advances from other funds	69,900	-	69,900
<b>Total Liabilities</b>	<b>\$ 69,953</b>	<b>\$ 1,351</b>	<b>\$ 71,304</b>
<b>Deferred Inflows of Resources</b>			
Taxes	\$ -	\$ 62	\$ 62
Special assessments	518	-	518
<b>Total Deferred Inflows of Resources</b>	<b>\$ 518</b>	<b>\$ 62</b>	<b>\$ 580</b>
<b>Fund Balances</b>			
Restricted	\$ 464,359	\$ -	\$ 464,359
Assigned	-	156,455	156,455
Unassigned	(65,981)	-	(65,981)
<b>Total Fund Balances</b>	<b>\$ 398,378</b>	<b>\$ 156,455</b>	<b>\$ 554,833</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 468,849</b>	<b>\$ 157,868</b>	<b>\$ 626,717</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Statement 2*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Special Revenue Funds		Total Nonmajor Special Revenue Funds (Exhibit 5)
	Ditch	Unorganized Townships	
<b>Revenues</b>			
Taxes	\$ -	\$ 19,427	\$ 19,427
Special assessments	112,615	-	112,615
Intergovernmental	40,000	35,235	75,235
Miscellaneous	5,625	-	5,625
<b>Total Revenues</b>	<b>\$ 158,240</b>	<b>\$ 54,662</b>	<b>\$ 212,902</b>
<b>Expenditures</b>			
<b>Current</b>			
Public safety	\$ -	\$ 6,390	\$ 6,390
Highways and streets	-	101,332	101,332
Conservation of natural resources	230,162	-	230,162
<b>Total Expenditures</b>	<b>\$ 230,162</b>	<b>\$ 107,722</b>	<b>\$ 337,884</b>
<b>Net Change in Fund Balance</b>	<b>\$ (71,922)</b>	<b>\$ (53,060)</b>	<b>\$ (124,982)</b>
<b>Fund Balance - January 1</b>	<b>470,300</b>	<b>209,515</b>	<b>679,815</b>
<b>Fund Balance - December 31</b>	<b>\$ 398,378</b>	<b>\$ 156,455</b>	<b>\$ 554,833</b>

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*Schedule 8*

**BUDGETARY COMPARISON SCHEDULE  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Special assessments	\$ 109,200	\$ 168,800	\$ 112,615	\$ (56,185)
Intergovernmental	-	-	40,000	40,000
<b>Total Revenues</b>	<b>\$ 109,200</b>	<b>\$ 168,800</b>	<b>\$ 152,615</b>	<b>\$ (16,185)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Maintenance and repairs	65,500	106,950	230,162	(123,212)
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 43,700</b>	<b>\$ 61,850</b>	<b>\$ (77,547)</b>	<b>\$ (139,397)</b>
<b>Fund Balance - January 1</b>	<b>470,300</b>	<b>470,300</b>	<b>470,300</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 514,000</b>	<b>\$ 532,150</b>	<b>\$ 392,753</b>	<b>\$ (139,397)</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 9*

**BUDGETARY COMPARISON SCHEDULE  
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 19,700	\$ 19,700	\$ 19,427	\$ (273)
Intergovernmental	36,000	36,000	35,235	(765)
<b>Total Revenues</b>	<b>\$ 55,700</b>	<b>\$ 55,700</b>	<b>\$ 54,662</b>	<b>\$ (1,038)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Public safety</b>				
Fire protection	\$ 6,400	\$ 6,400	\$ 6,390	\$ 10
<b>Highways and streets</b>				
Township roads	63,800	63,800	101,332	(37,532)
<b>Total Expenditures</b>	<b>\$ 70,200</b>	<b>\$ 70,200</b>	<b>\$ 107,722</b>	<b>\$ (37,522)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (14,500)</b>	<b>\$ (14,500)</b>	<b>\$ (53,060)</b>	<b>\$ (38,560)</b>
<b>Fund Balance - January 1</b>	-	-	<b>209,515</b>	<b>209,515</b>
<b>Fund Balance - December 31</b>	<b>\$ (14,500)</b>	<b>\$ (14,500)</b>	<b>\$ 156,455</b>	<b>\$ 170,955</b>

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

**FIDUCIARY FUNDS**

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 Forfeited Tax Sale Agency 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 remain with the State until the lands are sold by the County.

The Kittson 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, 2017**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>AGENCY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 24,117</u>	<u>\$ 6,013,357</u>	<u>\$ 6,009,221</u>	<u>\$ 28,253</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 24,117</u>	<u>\$ 6,013,357</u>	<u>\$ 6,009,221</u>	<u>\$ 28,253</u>
 <b><u>FLEXIBLE BENEFITS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 8,513</u>	<u>\$ 16,424</u>	<u>\$ 19,395</u>	<u>\$ 5,542</u>
<b><u>Liabilities</u></b>				
Accounts payable	<u>\$ 8,513</u>	<u>\$ 16,424</u>	<u>\$ 19,395</u>	<u>\$ 5,542</u>
 <b><u>FORFEITED TAX SALE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ -</u>	<u>\$ 14,584</u>	<u>\$ 14,585</u>	<u>\$ (1)</u>
<b><u>Liabilities</u></b>				
Accounts payable	<u>\$ -</u>	<u>\$ 14,584</u>	<u>\$ 14,585</u>	<u>\$ (1)</u>
 <b><u>KITTSON HEALTH INSURANCE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 53,960</u>	<u>\$ 602,956</u>	<u>\$ 651,482</u>	<u>\$ 5,434</u>
<b><u>Liabilities</u></b>				
Accounts payable	<u>\$ 53,960</u>	<u>\$ 602,956</u>	<u>\$ 651,482</u>	<u>\$ 5,434</u>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

***Statement 3  
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
 <b><u>KITTSOON COUNTY CHILDREN'S COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 11,684</u>	<u>\$ 1,691</u>	<u>\$ 2,047</u>	<u>\$ 11,328</u>
<b><u>Liabilities</u></b>				
Accounts payable	<u>\$ 11,684</u>	<u>\$ 1,691</u>	<u>\$ 2,047</u>	<u>\$ 11,328</u>
 <b><u>KITTSOON COUNTY ECONOMIC DEVELOPMENT AUTHORITY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 171,962</u>	<u>\$ 52,873</u>	<u>\$ 66,008</u>	<u>\$ 158,827</u>
<b><u>Liabilities</u></b>				
Accounts payable	<u>\$ 171,962</u>	<u>\$ 52,873</u>	<u>\$ 66,008</u>	<u>\$ 158,827</u>
 <b><u>KITTSOON-MARSHALL RURAL WATER SYSTEM</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 1,852</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,852</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 1,852</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,852</u>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Statement 3  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Balance January 1	Additions	Deductions	Balance December 31
 <b><u>MAR-KIT LANDFILL</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 4,264,229	\$ 2,786,821	\$ 1,729,153	\$ 5,321,897
<b><u>Liabilities</u></b>				
Due to other governments	\$ 4,264,229	\$ 2,786,821	\$ 1,729,153	\$ 5,321,897
 <b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ (19,124)	\$ 2,160,390	\$ 2,147,252	\$ (5,986)
<b><u>Liabilities</u></b>				
Due to other governments	\$ (19,124)	\$ 2,160,390	\$ 2,147,252	\$ (5,986)
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 211,791	\$ 11,661,329	\$ 11,601,449	\$ 271,671
<b><u>Liabilities</u></b>				
Due to other governments	\$ 211,791	\$ 11,661,329	\$ 11,601,449	\$ 271,671
 <b><u>WATERSHED DITCH</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 3,689	\$ 118,108	\$ 121,923	\$ (126)
<b><u>Liabilities</u></b>				
Due to other governments	\$ 3,689	\$ 118,108	\$ 121,923	\$ (126)



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Statement 3**  
**(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 4,732,673</u>	<u>\$ 23,428,533</u>	<u>\$ 22,362,515</u>	<u>\$ 5,798,691</u>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 246,119	\$ 688,528	\$ 753,517	\$ 181,130
Due to other governments	<u>4,486,554</u>	<u>22,740,005</u>	<u>21,608,998</u>	<u>5,617,561</u>
<b>Total Liabilities</b>	<u>\$ 4,732,673</u>	<u>\$ 23,428,533</u>	<u>\$ 22,362,515</u>	<u>\$ 5,798,691</u>

## **OTHER SCHEDULES**

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

**BALANCE SHEET - BY DITCH  
DITCH SPECIAL REVENUE FUND  
DECEMBER 31, 2017**

	Assets			Liabilities
	Cash and Pooled Investments	Special Assessments Receivable - Prior	Total Assets	Due to Other Governments
<b>County Ditches</b>				
1	\$ 43,839	\$ -	\$ 43,839	\$ -
4	12,751	35	12,786	-
8	15,556	17	15,573	-
9	10,809	-	10,809	-
11	9,837	-	9,837	-
12	486	-	486	-
13	1,570	-	1,570	-
14	3,126	11	3,137	-
15	5,944	-	5,944	-
16	43,261	-	43,261	-
17	16,612	-	16,612	-
18	11,787	3	11,790	-
19	778	-	778	-
20	7,091	-	7,091	-
21	12,329	-	12,329	-
22	26,734	1	26,735	-
23	2,727	-	2,727	-
25	12,949	-	12,949	-
26	13,948	-	13,948	-
27	10,296	-	10,296	-
28	18,171	-	18,171	-
29	15,593	-	15,593	-
30	984	-	984	-
31	22,196	-	22,196	-
33	7,435	-	7,435	-
<b>Joint County Ditches</b>				
31	1,735	70	1,805	-
32	7,115	79	7,194	-
33	4,474	-	4,474	-
<b>State Ditches</b>				
1	20,371	-	20,371	-
48R	172	78	250	-
50	14,002	-	14,002	-
72	20,349	-	20,349	-
84	330	24	354	-
85	21,988	-	21,988	-
90	272	235	507	53
95	50,435	244	50,679	-
<b>Total</b>	<b>\$ 468,052</b>	<b>\$ 797</b>	<b>\$ 468,849</b>	<b>\$ 53</b>

**Schedule 10**

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		
\$ -	\$ -	\$ -	\$ 43,839	\$ -	\$ 43,839	\$ 43,839
-	-	33	12,753	-	12,753	12,786
-	-	17	15,556	-	15,556	15,573
-	-	-	10,809	-	10,809	10,809
-	-	-	9,837	-	9,837	9,837
600	600	-	-	(114)	(114)	486
-	-	-	1,570	-	1,570	1,570
-	-	11	3,126	-	3,126	3,137
-	-	-	5,944	-	5,944	5,944
-	-	-	43,261	-	43,261	43,261
-	-	-	16,612	-	16,612	16,612
-	-	-	11,790	-	11,790	11,790
13,300	13,300	-	-	(12,522)	(12,522)	778
-	-	-	7,091	-	7,091	7,091
-	-	-	12,329	-	12,329	12,329
-	-	1	26,734	-	26,734	26,735
-	-	-	2,727	-	2,727	2,727
-	-	-	12,949	-	12,949	12,949
-	-	-	13,948	-	13,948	13,948
-	-	-	10,296	-	10,296	10,296
-	-	-	18,171	-	18,171	18,171
-	-	-	15,593	-	15,593	15,593
-	-	-	984	-	984	984
8,800	8,800	-	22,196	-	22,196	30,996
-	-	-	7,435	-	7,435	7,435
-	-	25	-	(7,020)	(7,020)	(6,995)
-	-	4	7,190	-	7,190	7,194
-	-	-	4,474	-	4,474	4,474
-	-	-	20,371	-	20,371	20,371
11,400	11,400	77	-	(11,227)	(11,227)	250
-	-	-	14,002	-	14,002	14,002
11,400	11,400	-	20,349	-	20,349	31,749
-	-	24	-	(11,070)	(11,070)	(11,046)
-	-	-	21,988	-	21,988	21,988
24,400	24,453	82	-	(24,028)	(24,028)	507
-	-	244	50,435	-	50,435	50,679
<b>\$ 69,900</b>	<b>\$ 69,953</b>	<b>\$ 518</b>	<b>\$ 464,359</b>	<b>\$ (65,981)</b>	<b>\$ 398,378</b>	<b>\$ 468,849</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 11*

**BALANCE SHEET - BY UNORGANIZED TOWNSHIP  
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND  
DECEMBER 31, 2017**

	<u>Klondike</u>	<u>McKinley</u>	<u>North Red River</u>	<u>Peatland</u>	<u>Total</u>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 12,973	\$ 25,206	\$ 69,593	\$ 50,034	\$ 157,806
Taxes receivable - prior	23	13	-	26	62
<b>Total Assets</b>	<b><u>\$ 12,996</u></b>	<b><u>\$ 25,219</u></b>	<b><u>\$ 69,593</u></b>	<b><u>\$ 50,060</u></b>	<b><u>\$ 157,868</u></b>
<b><u>Liabilities, Deferred Inflows of Resources and Fund Balance</u></b>					
<b>Liabilities</b>					
Due to other funds	\$ 357	\$ -	\$ 816	\$ 23	\$ 1,196
Due to other governments	-	-	155	-	155
<b>Total Liabilities</b>	<b><u>\$ 357</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 971</u></b>	<b><u>\$ 23</u></b>	<b><u>\$ 1,351</u></b>
<b>Deferred Inflows of Resources</b>					
Taxes	\$ 23	\$ 13	\$ -	\$ 26	\$ 62
<b>Fund Balances</b>					
Assigned to highways and streets	\$ 12,616	\$ 25,206	\$ 68,622	\$ 50,011	\$ 156,455
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<b><u>\$ 12,996</u></b>	<b><u>\$ 25,219</u></b>	<b><u>\$ 69,593</u></b>	<b><u>\$ 50,060</u></b>	<b><u>\$ 157,868</u></b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 12**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<b>Primary Government</b>
<b>Shared Revenue</b>	
<b>State</b>	
County program aid	\$ 102,225
Disparity reduction aid	4,458
Enhanced 911	74,183
Highway users tax	3,758,411
Market value credit	114,495
PERA rate reimbursement	13,027
Police state aid	41,986
State gas tax	20,049
Aquatic Invasive Species Prevention Aid	18,782
Riparian Protection Aid	160,000
<b>Total Shared Revenue</b>	<b>\$ 4,307,616</b>
<b>Reimbursement for Services</b>	
<b>State</b>	
Minnesota Department of Human Services	\$ 200,383
<b>Payments</b>	
Payments in lieu of taxes	\$ 187,609
<b>Grants</b>	
<b>Local</b>	
Markit Landfill	\$ 143,820
Local	67,200
Other	40,000
<b>Total Local</b>	<b>\$ 251,020</b>
<b>State</b>	
<b>Minnesota Department/Board of</b>	
Corrections	\$ 8,734
Human Services	300,390
Natural Resources	49,582
Peace Officer Standards and Training	2,225
Public Safety	17,437
Pollution Control Agency	76,373
Transportation	127,000
Veterans Affairs	7,500
Water and Soil Resources	75,404
<b>Total State</b>	<b>\$ 664,645</b>
<b>Federal</b>	
<b>Department of</b>	
Agriculture	\$ 47,246
Health and Human Services	256,052
Homeland Security	87,860
Transportation	880,542
<b>Total Federal</b>	<b>\$ 1,271,700</b>
<b>Total Grants</b>	<b>\$ 2,187,365</b>
<b>Total Intergovernmental Revenue</b>	<b>\$ 6,882,973</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 13*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

<b>Federal Grantor Pass Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Grant Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>			
Passed Through Minnesota Department of Human Services SNAP Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	172MN101S2514	<u>\$ 47,246</u>
<b>U.S. Department of Transportation</b>			
Highway Planning and Construction Cluster Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	00035	<u>\$ 880,542</u>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	G-1601MNFPS	\$ 1,735
TANF Cluster Temporary Assistance for Needy Families	93.558	1601MNTANF	37,166
Child Support Enforcement	93.563	1704MNCSES	59,824
Refugee and Entrant Assistance Grant	93.566	1701MNRCA	16
CCDF Cluster Child Care and Development Block Grant	93.575	G1701MNCDF	120
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFPRG	2,129
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	1,325
Foster Care Title IV-E	93.658	1701MNFOS	8,968
Social Services Block Grant	93.667	G-1701MNSOSR	49,054
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	1,404
Medicaid Cluster Children's Health Insurance Program	93.767	05-1705MN0301	16
Medical Assistance Program	93.778	05-1705MN5ADM	<u>94,295</u>
<b>Total U.S. Department of Health and Human Services</b>			<u><b>\$ 256,052</b></u>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	F-EMPG-2017-KITTSO-2305	15,064
Homeland Security Grant Program	97.067	F-OPSG-2015-KITTSO-2234/2296/2493	<u>72,796</u>
<b>Total U.S. Department of Homeland Security</b>			<u><b>\$ 87,860</b></u>
<b>Total Federal Awards</b>			<u><b>\$ 1,271,700</b></u>

Kittson County did not pass any federal awards through to subrecipients during the year ended December 31, 2017.

Totals by Cluster		
Total expenditures for SNAP Cluster	\$	47,246
Total expenditures for Highway Safety Cluster		880,542
Total expenditures for TANF Cluster		37,166
Total expenditures for CCDF Cluster		120
Total expenditures for Medicaid Cluster		94,311

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017. 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 2017, 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 2017, the County had no funds designated as ARRA funds.



## **MANAGEMENT AND COMPLIANCE SECTION**



## Hoffman, Philipp, & Knutson, PLLC

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

#### Independent Auditor's Report

Board of County Commissioners  
Kittson County

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kittson County as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 28, 2019.

#### **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 Questioned Costs 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.

### **Other Matters**

Included in the Schedule of Findings and Questioned Costs is a management practices comment noted as item 2015-010. We believe this recommendation to be of benefit to the County, and it is reported for that purpose.

### **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 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 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

January 28, 2019

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



Hoffman, Philipp, & Knutson, PLLC

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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, 2017. 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, 2017.

### **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.

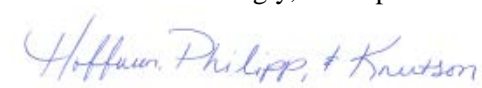
Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material 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 2017-001 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

January 28, 2019

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 14**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2017

**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 "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 14**  
***(Continued)***

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

**INTERNAL CONTROL**

**PREVIOUSLY REPORTED ITEMS NOT RESOLVED**

**Finding Number: 1996-001**

**Finding Title: 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 14**  
***(Continued)***

**Finding Number: 2007-001**

**Finding Title: 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 14**  
***(Continued)***

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

**Finding Number: 2016-001**

**Finding Title: 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 nine 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 is not expected to reoccur in the future.

**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 nine 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.*

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

**MANAGEMENT PRACTICES**

**PREVIOUSLY REPORTED ITEMS NOT RESOLVED**

**Finding Number: 2015-010**

**Finding Title: Ditch Fund Balance Deficits**

**Criteria:** Assets should exceed liabilities in order for the County to meet its obligations and maintain a positive fund balance. Under Minnesota Statute § 103E.655, drainage project costs must be paid from the appropriate drainage system account. Through the levying of assessments, Minnesota Statute, § 103E.735, subdivision 1, provides that a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is larger.

**Condition:** As of December 31, 2017, the County had individual ditch systems where liabilities

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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

exceeded assets, resulting in individual deficit fund balance amounts.

**Context:** Six of the 36 active individual ditch systems had deficit fund balances at December 31, 2017, totaling \$65,681, the largest being \$24,028.

**Effect:** Without an adequate fund balance reserve, unplanned repairs cause the individual ditch system to incur a deficit fund balance until such time as funds can be assessed on the property owners to pay for the maintenance.

**Cause:** Individual ditch systems report a deficit fund balance whenever ditch maintenance and repair costs exceed available fund balance reserves.

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

**County's Response:** *Dry weather over the past 3 years have created opportunities to make repairs to ditches that are normally too wet for major work. The Kittson County Board of Commissioners took advantage of these conditions to make necessary repairs. The County is working towards having positive balances in all ditch funds over the next 3 years.*

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 15*

CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2017

**Finding Number: 1996-001**

**Finding Title: Segregation of Duties**

**Name of Contact Person Responsible for Corrective Action:** Eric Christensen, County Administrator

**Corrective Action Planned:** 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. Kittson County is well aware of the risk that limited staffing might cause, but due to the financial costs, must find solutions that mitigate risk without breaking the County's budget.

**Anticipated Completion Date:** *None. Though we will strive to remedy this issue at every opportunity. At this time, we expect this issue to continue indefinitely.*

**Finding Number: 2007-001**

**Finding Title: Internal Controls**

**Name of Contact Person Responsible for Corrective Action:** Eric Christensen, County Administrator

**Corrective Action Planned:** The County Administrator 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.

**Anticipated completion Date:** *None. Though we will strive to remedy this issue at every opportunity. At this time, we expect this issue to continue indefinitely.*

**Finding Number: 2016-001**

**Finding Title: Reporting Requirements**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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

**Name of Contact Person Responsible for Corrective Action:** Eric Christensen, County Administrator

**Corrective Action Planned:** The late audit report was beyond the control of the County. The County 2017 audit has again not been completed within the nine months of the fiscal year which is the time frame for a timely submission of the data collection form and reporting package. 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.

**Anticipated Completion Date:** *September 30, 2019.*

**Finding Number: 2015-010**

**Finding Title: Ditch Fund Balance Deficits**

**Name of Contact Person Responsible for Corrective Action:** Eric Christensen, County Administrator

**Corrective Action Planned:** County Commissioners will be instructed to levy sufficient funds to create a fund balance sufficient to cover any anticipated repairs.

**Anticipated Completion Date:** *This is expected to be an ongoing issue that may take several years to correct. Estimated completion date is December 31, 2019.*

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 16**

SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2017

**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.

**Finding Number: 2016-001**

**Finding Title: Reporting Requirements**

**Summary of Condition:** The County did not submit the data collection form to the Federal Audit Clearinghouse within the required time frame.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 16**  
***(Continued)***

**Summary of Corrective Action Previously Reported:** 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.

**Status:** Not resolved. The County 2017 audit has again not been completed within the nine months of the fiscal year which is the time frame for a timely submission of the data collection form and reporting package.

**Finding Number: 2015-010**

**Finding Title: Ditch Fund Balance Deficits**

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

**Summary of Corrective Action Previously Reported:** In accordance with Minnesota statutes, the individual ditch systems borrowed from the 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:** Not resolved. The County has an additional three ditch systems in the current year with deficit fund balances, for a total of six ditch fund balance deficits.