

**KITTSOON COUNTY
HALLOCK, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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KITTSOON COUNTY
LIST OF ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2018

Office	Name	Term Expires
Commissioners		
1 st District	Corey Wikstrom	January 2021
2 nd District	Theresa Gillie	January 2021
3 rd District	Joe Bouvette	January 2019
4 th District	Leon Olson	January 2021
5 th District	Betty Younggren	January 2019
Officers		
Elected		
Attorney	Roger Malm	January 2019
Sheriff	Steve Porter	January 2019
Appointed		
Administrator	Eric Christensen	Indefinite
Assessor	Marian Paulson	December 2019
Environmental Officer	Scot Olson	Indefinite
Highway Engineer	Kelly Bengtson	May 2019
Medical Examiner	Mary Sens	Indefinite
Recorder	Kristi Hultgren	Indefinite
Social Services Director	Kathleen Johnson	Indefinite
Veterans Service Officer	Wayne Jacobson	May 2022

INDEPENDENT AUDITOR'S REPORT

To the Board of County Commissioners
Kittson County
Hallock, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kittson County, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Kittson County's basic financial statements as listed in the table of contents. We did not audit the financial statements of the discretely presented component unit; those statements were audited by other auditors.

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, which represents 100% of the assets, net position, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for 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 from 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 the 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 Kittson County, Minnesota, as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As discussed in Note 2 to the financial statements, the District has retroactively restated the previously reported Net Position in accordance with this statement.

Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedules, and notes as listed in the table of contents as required supplementary information 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kittson County, Minnesota's basic financial statements. The combining fund financial statements, balance sheet by ditch, balance sheet by unorganized township, and schedule of intergovernmental revenue are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2, U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The combining fund financial statements, balance sheet by ditch, balance sheet by unorganized township, schedule of intergovernmental revenue, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 combining fund financial statements, balance sheet by ditch, balance sheet by unorganized township, schedule

of intergovernmental revenue, and schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2020, on our consideration of Kittson County, Minnesota'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 solely 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 effectiveness of Kittson County's 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 Kittson County's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
THIEF RIVER FALLS, MINNESOTA**

January 6, 2020

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KITTSON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018

The Financial Management of Kittson County (County) offer the readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2018. We encourage readers to consider the information presented here in conjunction with the County's financial statements, which immediately follow this section.

Financial Highlights

The total net position of governmental activities is \$69,331,605, of which \$63,331,845 is the net investment in capital assets, \$1,582,085 is restricted for specific purposes, and \$4,417,675 is unrestricted. The total net position of governmental activities increased by \$3,364,016 for the year ended December 31, 2018. This is attributed primarily due to a decrease in net pension liability.

At the close of 2018, the County's governmental funds reported combined ending fund balances of \$7,878,708, an increase of \$873,493 from the prior year. Of the total fund balance amount, \$607,095 is nonspendable, \$1,582,085 is legally or contractually restricted, \$3,174,317 is assigned for specific purposes, and an unassigned fund balance of \$2,515,211 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 the County's basic financial statements. The County's basic financial statements 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 themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the County's assets, liabilities, and deferred inflows/outflows of resources with the difference 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 and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development.

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 requirements. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds.

KITTSON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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, governmental fund 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 used 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 near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, road and bridge fund, social services fund, all of which are considered major funds. Data from the ditch fund and the unorganized township fund are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

General Fund. The general fund is used to account for all financial resources not required to be accounted for in another fund.

Special Revenue Fund. Special revenue governmental funds account for the proceeds of specific revenue that are restricted to expenditures for specified purposes. The special revenue funds include road and bridge, social services, ditch, and unorganized township funds.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

KITTSON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Government-wide Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of Kittson County, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$69,331,605 at the close of the most recent fiscal year.

Net investment in capital assets of \$63,331,845 (e.g., land, buildings, machinery, equipment, infrastructure, and construction in progress, less any related debt used to acquire assets that is still outstanding) represents 96% of the total net position. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Approximately 2% of the County's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$4,417,675 may be used to meet the government's ongoing obligations to citizens and creditors.

Statement of Net Position

	<u>2018</u>	<u>2017</u>	<u>Percentage Increase (Decrease)</u>
Current and other assets	\$ 10,708,560	\$ 9,210,681	16.3 %
Capital assets	63,331,845	61,247,298	3.4
Total assets	<u>74,040,405</u>	<u>70,457,979</u>	5.1
Deferred Outflows of Resources	<u>1,131,124</u>	<u>2,269,876</u>	(50.2)
Long-term liabilities	451,915	611,385	(26.1)
Other liabilities	3,635,074	4,015,220	(9.5)
Total liabilities	<u>4,086,989</u>	<u>4,626,605</u>	(11.7)
Deferred Inflows of Resources	<u>1,752,935</u>	<u>2,216,648</u>	(20.9)
Net Position			
Net Investment in Capital Assets	63,331,845	61,247,298	3.4
Restricted	1,582,085	1,566,496	1.0
Unrestricted	4,417,675	3,070,808	43.9
Total net position	<u>\$ 69,331,605</u>	<u>\$ 65,884,602</u>	5.2

At the end of the current fiscal year, the County is able to report positive balances in all three categories of net position.

KITTSON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

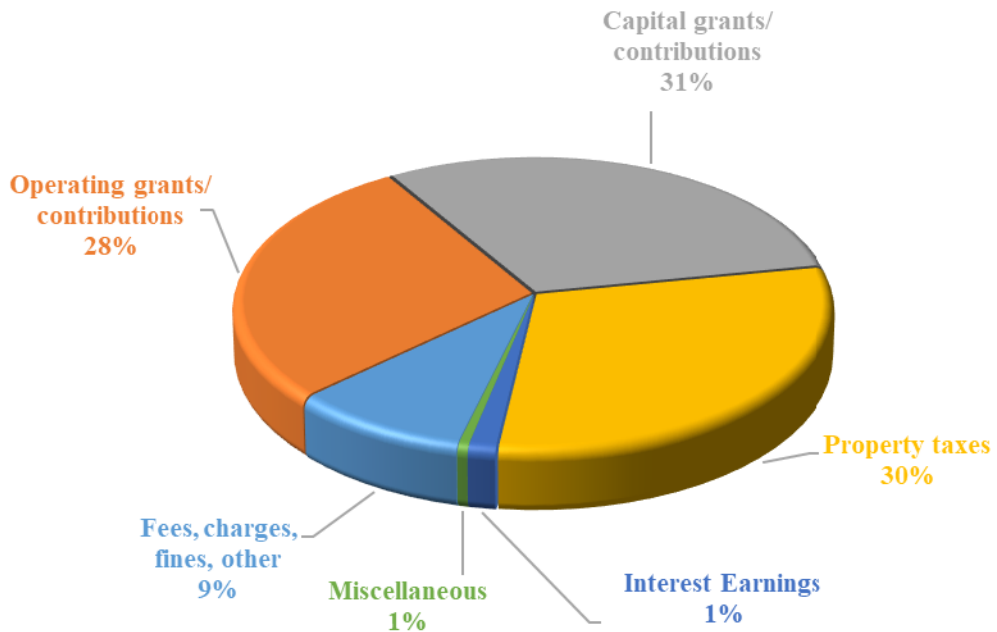
Change in Net Position

	<u>2018</u>	<u>2017</u>	<u>Percentage Increase (Decrease)</u>
Revenues			
Program revenues			
Fees, charges, fines and other	\$ 1,295,577	\$ 1,157,549	11.9 %
Operating grants and contributions	3,965,790	3,802,076	4.3
Capital grants and contributions	4,312,684	3,301,882	30.6
General revenues			
Property taxes	4,212,109	3,982,514	5.8
Other sources	173,787	237,146	(26.7)
Total revenues	<u>13,959,947</u>	<u>12,481,167</u>	11.8
Expenses			
General government	2,389,136	1,987,655	20.2
Public safety	1,452,703	1,420,996	2.2
Highways and streets	4,300,840	4,621,968	(6.9)
Sanitation	111,295	106,700	4.3
Social services	1,614,558	1,679,381	(3.9)
Health		34,991	(100.0)
Culture and recreation	126,500	239,735	(47.2)
Conservation of natural resources	590,899	554,599	6.5
Economic development	10,000	106,714	(90.6)
Total expenses	<u>10,595,931</u>	<u>10,752,739</u>	(1.5)
Change in net position	3,364,016	1,728,428	94.6
Net position - beginning	65,884,602	64,156,174	2.7
GASB 75 Adjustment - See Note 2	(260,914)		
Prior Period Adjustment	343,901		
Net position - beginning, restated	<u>65,967,589</u>	<u>64,156,174</u>	2.8
Net position - ending	<u>\$ 69,331,605</u>	<u>\$ 65,884,602</u>	5.2 %

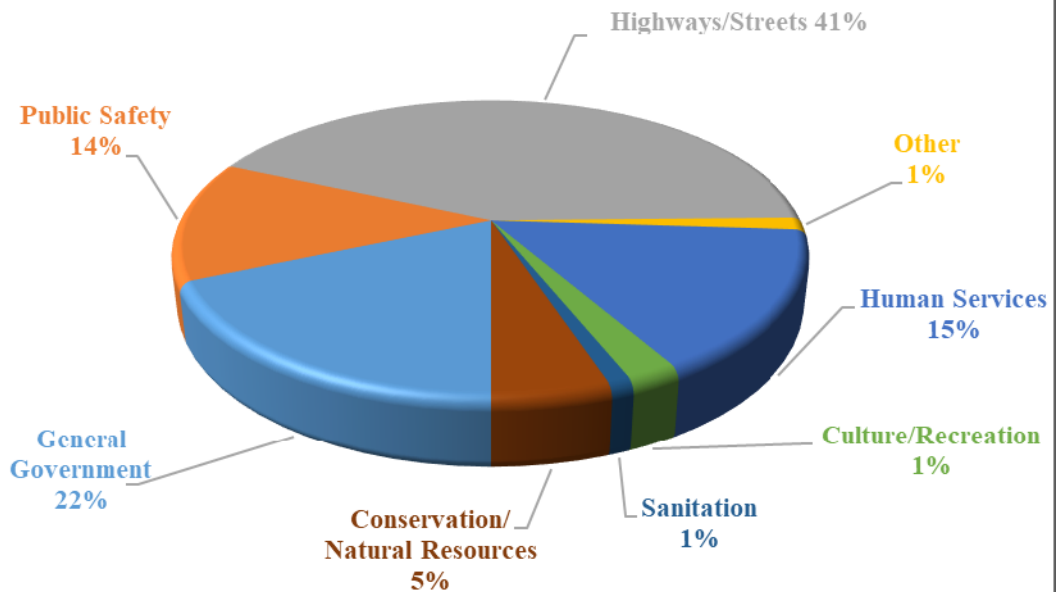
Governmental activities. Governmental activities increased the County's net position by \$3,364,016. Kittson County's capital assets increased by approximately \$2,085,000 in 2018, as a result of the completion of various highway projects and the purchase of equipment. The conversion to capital assets decreases the expenses in the governmental activities.

KITTSON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Revenues by Source



Expenses by Function



KITTSOON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

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.

Governmental Funds. The focus of the County *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

	Major Funds			Percentage Increase (Decrease)
	Fund Balance		Increase (Decrease)	
	<u>12/31/2018</u>	<u>12/31/2017</u>		
Governmental Funds				
General	\$ 4,555,297	\$ 4,663,389	\$ (108,092)	(2.3) %
Road and Bridge	691,985	(41,634)	733,619	1,762.1
Social Services	2,041,409	1,828,627	212,782	11.6

At the end of 2018, the County's governmental funds reported combined ending fund balances of \$7,878,708. Of this amount, approximately 5 percent constitutes non-spendable fund balance, 20 percent constitutes legally or contractually restricted fund balance, 40 percent constitutes specifically assigned fund balance, and 35 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 \$4,555,297. The General Fund's nonspendable fund balance was \$323,200, the restricted fund balance was \$785,570, the assigned fund balance was \$860,891, and unassigned fund balance was \$2,585,636. 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 2018. Unrestricted fund balance represents 83 percent of total General Fund expenditures, while total fund balance represents 101 percent of that same amount.

In 2018, the fund balance amount in the General Fund decreased by \$108,092, primarily due to an increase in general government costs.

The fund balance of the Road and Bridge Special Revenue Fund increased by \$733,619 in 2018 due to the completion of projects and collection of state aid money from 2017.

The fund balance of the Social Services Special Revenue Fund increased \$212,782 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

The County did not revise the budget in the year ended December 31, 2018.

The County's final budget for the general fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by \$382,911. The actual results for the year show a decrease of \$108,092.

KITTSON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Capital Assets and Debt Administration

Capital Assets. The County's investment in capital assets for its government as of December 31, 2018, amount to \$63,331,845 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, and construction in progress.

	Governmental Activities	
	12/31/2018	12/31/2017
Land	\$ 1,578,981	\$ 1,578,981
Construction in progress	1,107,513	2,988,127
Infrastructure	58,387,324	54,568,609
Buildings and Improvements	939,558	1,050,237
Machinery and Equipment	1,318,469	1,061,344
Total Capital Assets	\$ 63,331,845	\$ 61,247,298

Major capital assets events during the current fiscal year included the following:

- Continued infrastructure construction on highways

Additional information on the County's capital assets is located in Note 6 of this report.

Long-term Debt. At the end of the current fiscal year, the County had no long-term debt. The North Kittson Rural Water System had bonds outstanding in the amount of \$405,000, 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 the Statement of Revenues, Expenditures, and Changes in Fund Balances and the Schedule of Intergovernmental Revenue.

- Kittson County's unemployment rate was 3.4 percent as of December 31, 2018. This is higher than the statewide rate of 3.2 percent but lower than the national average rate of 3.7 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, 2018 was estimated to be 4,260, a decrease of 259 since the 2010 census. This ranks Kittson County 84th of 87 in the State of Minnesota.
- On December 6, 2018, Kittson County set its 2019 revenue and expenditure budgets.

KITTSOON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government'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 5th St S, Suite 208, Hallock, MN 56728.

KITTSON COUNTY
STATEMENT OF NET POSITION
DECEMBER 31, 2018

	Primary Government Governmental Activities	Discretely Presented Component Unit
ASSETS		
Cash and Investments	\$ 7,166,964	\$ 2,597,255
Current Property Taxes Receivable	139,517	
Special Assessments Receivable		
Current	3,539	5,094
Delinquent	797	6,911
Noncurrent	177,266	324,675
Accounts Receivable	101,025	68,569
Interest Receivable	33,188	3,336
Due From Other Governments	2,802,369	264,000
Inventory	283,895	
Capital Assets		
Non-depreciable Capital Assets	2,686,494	109,045
Depreciable Capital Assets - Net of Accumulated Depreciation	60,645,351	8,983,336
TOTAL ASSETS	74,040,405	12,362,221
DEFERRED OUTFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan	1,102,691	63,027
Other Postemployment Benefits	28,433	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,131,124	63,027
LIABILITIES		
Accounts Payable	200,129	10,633
Salary Payable	184,456	
Contracts Payable	68,651	
Due to Other Governments	131,391	1,216
Customer Deposits		12,240
Long-Term Liabilities		
Net Pension Liability	2,524,063	171,975
Total Other Postemployment Benefit Liability	526,384	
Due within One Year	185,692	110,923
Due within More Than One Year	266,223	329,150
TOTAL LIABILITIES	4,086,989	636,137
DEFERRED INFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan	1,752,935	69,441
TOTAL DEFERRED INFLOWS OF RESOURCES	1,752,935	69,441
NET POSITION		
Net Investment in Capital Assets	63,331,845	8,687,381
Restricted For:		
Aquatic Invasive Species	30,668	
Corrections supervision	8,301	
DWI Assessment	5,895	
Enhanced 911	311,746	
Handgun Permits	25,519	
Help America Vote Act	27,480	
Law Library	1,161	
Missing Heirs	6,320	
Probation	1,640	
Recorder's Equipment	125,470	
Riparian Protection Aid	15,071	
SCORE	48,613	
Sheriff's Contingent Fund	838	
Technology	156,250	
Vehicle Seizures	4,898	
Victim Assistance	2,997	
Water Planning	6,544	
LEPC	6,159	
Gravel Pit Restoration	136,073	
Township	181,572	
Ditch	478,870	
Debt Service		286,731
Unrestricted	4,417,675	2,745,558
TOTAL NET POSITION	\$ 69,331,605	\$ 11,719,670

See Notes To The Basic Financial Statements

KITTSON COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Fees, Charges, Fines and Other	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Discretely Presented Component Unit
PRIMARY GOVERNMENT						
Governmental Activities						
General Government	\$ 2,389,136	\$ 492,259	\$ 599,657	\$	\$ (1,297,220)	
Public Safety	1,452,703	44,546	216,106		(1,192,051)	
Highways and Streets	4,300,840	539,779	1,632,619	4,312,684	2,184,242	
Sanitation	111,295	28,215	169,662		86,582	
Social Services	1,614,558	179,481	910,007		(525,070)	
Culture and Recreation	126,500				(126,500)	
Conservation of Natural Resources	590,899	11,297	437,739		(141,863)	
Economic Development	10,000				(10,000)	
TOTAL PRIMARY GOVERNMENT	\$ 10,595,931	\$ 1,295,577	\$ 3,965,790	\$ 4,312,684	(1,021,880)	
COMPONENT UNIT						
North Kittson Rural Water System	\$ 752,620	\$ 725,637	\$ 93,219	\$		66,236
GENERAL REVENUES						
Taxes						
Property Taxes					4,212,109	
Unrestricted State Aid						1,928
Unrestricted Investment Earnings					99,637	24,605
Gain on Sale of Capital Assets					72,500	
Other General Revenue					1,650	
TOTAL GENERAL REVENUES					4,385,896	26,533
Change in Net Position					3,364,016	92,769
Net Position - Beginning					65,884,602	11,626,901
GASB 75 Adjustment - See Note 2					(260,914)	
Prior Period Adjustment - See Note 2					343,901	
Net Position - Beginning					<u>65,967,589</u>	<u>11,626,901</u>
Net Position - Ending					<u>\$ 69,331,605</u>	<u>\$ 11,719,670</u>

See Notes To The Basic Financial Statements

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KITTSOON COUNTY
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	General	Road and Bridge	Social Services	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 4,425,043	\$ 187,791	\$ 1,888,726	\$ 665,404	\$ 7,166,964
Property Taxes Receivable					
Current	85,879	25,284	28,354		139,517
Special Assessments Receivable					
Current				3,539	3,539
Delinquent				797	797
Noncurrent				177,266	177,266
Interest Receivable	33,183		5		33,188
Accounts Receivable	6,800	5,194	89,031		101,025
Due from Other Governments	77,287	2,605,657	112,699	6,726	2,802,369
Advances to Other Funds	323,200				323,200
Due from Other Funds		11,666			11,666
Inventory		283,895			283,895
TOTAL ASSETS	\$ 4,951,392	\$ 3,119,487	\$ 2,118,815	\$ 853,732	\$ 11,043,426
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 130,890	\$ 38,758	\$ 29,731	\$ 750	\$ 200,129
Salary Payable	103,057	54,257	27,142		184,456
Contracts Payable		68,651			68,651
Due to Other Governments	117,808	4,677	6,802	2,104	131,391
Advances from Other Funds		250,000		73,200	323,200
Due to Other Funds	1,789			9,877	11,666
TOTAL LIABILITIES	353,544	416,343	63,675	85,931	919,493
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue					
Property Taxes	42,551	12,104	13,731		68,386
Special Assessments				177,784	177,784
County Highway Aid Allotment		1,999,055			1,999,055
TOTAL DEFERRED INFLOWS OF RESOURCES	42,551	2,011,159	13,731	177,784	2,245,225
FUND BALANCES					
Fund Balance:					
Nonspendable	323,200	283,895			607,095
Restricted	785,570	136,073		660,442	1,582,085
Assigned	860,891	272,017	2,041,409		3,174,317
Unassigned	2,585,636			(70,425)	2,515,211
TOTAL FUND BALANCES	4,555,297	691,985	2,041,409	590,017	7,878,708
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 4,951,392	\$ 3,119,487	\$ 2,118,815	\$ 853,732	\$ 11,043,426

See Notes To The Basic Financial Statements

KITTSOON COUNTY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2018

Total fund balances - governmental funds		\$ 7,878,708
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		
Cost of capital assets		95,044,579
Less: accumulated depreciation		(31,712,734)
Deferred outflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
		1,131,124
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
Compensated Absences		(451,915)
Total Other Postemployment Benefit Liability		(526,384)
Net Pension Liability		(2,524,063)
Deferred inflows of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
		(1,752,935)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		
		<u>2,245,225</u>
Net Position - governmental activities		<u>\$ 69,331,605</u>

See Notes To The Basic Financial Statements

KITTSOON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	General	Road and Bridge	Social Services	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 2,322,990	\$ 697,256	\$ 765,680	\$ 75,467	\$ 3,861,393
Special Assessments				140,107	140,107
Licenses and Permits	1,645				1,645
Intergovernmental	1,422,250	5,325,917	911,150	20,254	7,679,571
Charges for Services	217,138	427,254	70,974	8,552	723,918
Investment Income	99,421				99,421
Miscellaneous	364,042	257,997	106,559	1,650	730,248
TOTAL REVENUES	4,427,486	6,708,424	1,854,363	246,030	13,236,303
EXPENDITURES					
Current					
General Government	2,224,841				2,224,841
Public Safety	1,427,337				1,427,337
Highways and Streets		2,246,133		70,604	2,316,737
Sanitation	111,296				111,296
Human Services			1,606,490		1,606,490
Health Services	34,706				34,706
Culture and Recreation	126,500				126,500
Conservation of Natural Resources	450,251			140,242	590,493
Economic Development	10,000				10,000
Capital Outlay					
General Government	100,027				100,027
Public Safety	40,213				40,213
Highways and Streets		3,728,672			3,728,672
Sanitation	10,000				10,000
Human Services			35,091		35,091
Conservation of Natural Resources	407				407
TOTAL EXPENDITURES	4,535,578	5,974,805	1,641,581	210,846	12,362,810
Net Change in Fund Balances	(108,092)	733,619	212,782	35,184	873,493
Fund Balances - Beginning	4,663,389	(41,634)	1,828,627	554,833	7,005,215
Fund Balances - Ending	\$ 4,555,297	\$ 691,985	\$ 2,041,409	\$ 590,017	\$ 7,878,708

See Notes To The Basic Financial Statements

KITTSOON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

Total net change in fund balances - governmental funds	\$ 873,493
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over the estimated useful lives as depreciation expense.	
Capital outlays	3,737,915
Depreciation expense	(1,997,269)
Deferred revenues are recognized differently between the governmental fund financials and the statement of activities. In the current year these differences resulted in an increase in net position.	
	651,144
Change in deferred outflows and inflows of resources related to other postemployment benefit liability	
	(5,213)
Change in deferred outflows and inflows of resources related to net pension liability	
	(703,472)
In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid).	
Compensated absences	17,220
Total other postemployment benefit liability	(26,581)
Net pension liability	<u>816,779</u>
Change in net position - governmental activities	<u>\$ 3,364,016</u>

See Notes To The Basic Financial Statements

KITTSOON COUNTY
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS
DECEMBER 31, 2018

	<u>Agency</u>
ASSETS	
Cash and Investments	\$ <u>5,192,420</u>
TOTAL ASSETS	<u>5,192,420</u>
LIABILITIES	
Due to Other Governments	<u>5,192,420</u>
TOTAL LIABILITIES	\$ <u><u>5,192,420</u></u>

See Notes To The Basic Financial Statements

KITTSON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The County's financial statements are prepared in accordance with generally accepted accounting principles (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 has the powers, duties, and privileges granted counties by Minnesota Statute Chapter 373. A five-member Board of Commissioners elected from districts within the County governs 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.

The County is a participant in several joint ventures, which are described in Note 14. A related organization is described in Note 15 and jointly governed organizations are described in Note 16.

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. Basic Financial Statements

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 fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

In the government-wide statement of net position, the governmental 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, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and

KITTSOON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

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.

Fund Financial Statements

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

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Road and Bridge Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction, and maintenance of roads, bridges and other projects affecting County roadways.

The Social Services Fund is used to account for economic assistance and community social services programs.

Additionally, the County reports the following fund type:

The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. This fund accounts for assets that the County holds for others in an agency capacity.

D. 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 all revenues to be *available* if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted as they are needed.

KITTSOON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
DECEMBER 31, 2018

E. Assets, Liabilities, and Net Position or Equity

Cash and Investments

Investments are carried at fair value. The County considers certificates of deposit to be cash.

When fair value measurements are required, various data is used in determining those values. Assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable market inputs that are not corroborated by market data.

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, 2018, based on market prices. Pursuant to Minnesota Statute § 385.07, investment earnings on cash and pooled investments are credited to the general fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2018 were \$99,637.

Receivables and Payables

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 to/from other funds" (i.e., the non-current portion of the interfund loans). Advances between funds, as reported in the fund financial statements, are offset by a fund balance non-spendable account in the applicable government funds to indicate they are not available for appropriation and are not expendable available financial resources, unless the funds are otherwise restricted, committed, or assigned.

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 payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

Special assessments are levied against the benefited properties for the assessable costs of special assessment improvement projects in accordance with Minnesota Statutes. The County usually adopts the assessment rolls when the individual projects are complete or substantially complete. The assessments are collectible over a term of years generally consistent with the term of years of the related bond issue.

The County handles collection of annual installments (including interest) in the same manner as property taxes. Property owners are allowed to prepay total future installments without interest or prepayment penalties.

Special assessments receivable includes the following components:

Delinquent - amounts billed to property owners but not paid.

Noncurrent - assessment installments that will be billed to property owners in future years.

Special assessment receivables not expected to be collected within one year are \$178,063.

KITTSOON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
DECEMBER 31, 2018

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

Materials and Supplies Inventories

Materials and supplies are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The consumption method is used to account for inventories. Inventory costs are recorded as expenditures when individual inventory items are consumed. Reported inventories are equally offset by a nonspendable fund balance, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Capital Assets

Capital assets, which include land, construction in progress, buildings, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), buildings and improvements, and machinery and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$25,000 and an estimated historical cost if purchased or constructed. Donated capital assets are recorded at their 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 useful 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 of the government 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

Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. 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.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other

KITTSOON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
DECEMBER 31, 2018

financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

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 of vacation and 150 days of 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 Fund, and the Social Service Fund. Unused compensatory time, accumulated vacation and vested sick leave are paid to employees upon termination.

Use of Estimates

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/ expenditure) until then. The County has two items that qualify for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* and *Other Postemployment Benefits* which represents actuarial differences within PERA pension plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenue from delinquent property taxes, special assessments, and notes receivable as deferred inflows of resources. These amounts are deferred and recognized as an inflow of resources in the period they become available. In addition, the Statement of Net Position and Balance Sheet – Governmental Funds report advance of state aid, which represents aid received in advance of an annual allotment, as a deferred inflow of resources. An additional item, *Cost Sharing Defined Benefit Pension Plan*, represents actuarial differences within PERA pension plans.

Net Position – Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the County's financial statements. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources

KITTSOON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
DECEMBER 31, 2018

related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund Balance – The following classifications describe the relative strength of the spending constraints and the purposes for which resources can be used:

Nonspendable - consists of amounts that are not in spendable form (such as inventory and prepaid items) or are required to be maintained intact.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - consists of amounts constrained to specific purposes by the government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint. The board of county commissioners is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance.

Assigned - consists of amounts a government intends to use for a specific purpose but do not meet the criteria to be classified as restricted or committed. These constraints are established by the Board.

Unassigned – consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

When both restricted and unrestricted resources are available for use, it is the County's policy to first use restricted resources, and then use 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.

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, 2018.

KITTSON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
DECEMBER 31, 2018

NOTE 2. ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENT

Restatement of Net Position

The County implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement requires the County to record their total OPEB liability on the Statement of Net Position. Liabilities are calculated using the Entry Age actuarial cost method.

As a result, beginning net position has been restated as of January 1, 2018 as follows:

OPEB Balance as of December 31, 2017 (GASB 75)	\$ (499,803)
Net OPEB Liability (GASB 45)	205,243
Deferred Outflow of Resources, Contribution After Measurement Date	33,646
Decrease in Net Position as of January 1, 2018	\$ <u>(260,914)</u>

The prior period adjustment of \$343,901 was to adjust construction in process that was not recorded on the prior year financial statements. The effect of this prior period adjustment was to increase non-depreciable capital assets and net investment capital assets by \$343,901 on the December 31, 2017 government wide Statement of Net Position.

NOTE 3. 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 recreation 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 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 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 2018 taxes payable in 2019 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, 2018, 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 years. For years 1-7 it is 100% of the county property taxes and 50% 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 2019 taxes payable in 2020. The project is expected to create twenty-five full time positions. As of December 31, 2018, \$520,281 in county property taxes had been abated.

KITTSOON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
DECEMBER 31, 2018

C. Ditch Special Revenue Fund – Individual Ditches

All active drainage systems have incurred revenues in excess of expenditures. At December 31, 2018, there were 36 active drainage systems.

NOTE 4. DEPOSITS AND INVESTMENTS

The cash and investment accounts are comprised of the following:

		Governmental Activities	Fiduciary Fund	Total
Cash	\$	1,174,420	\$	\$ 1,174,420
Investments		5,992,544	5,192,420	11,184,964
Total Cash and Investments	\$	7,166,964	\$	12,359,384

At December 31, 2018, the County had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)		Credit Rating	Rating Agency
		< 1	1 - 5		
Money Market Accounts	\$ 78,108	\$ 78,108	\$	Aaa	Moody
US Agencies	1,071,898		1,071,898	Aaa	Moody
Local/State Govt. Bonds	2,060,285		2,060,285	A or Better	S&P
Total Investments by Fair Value	3,210,291	78,108	3,132,183		
Negotiable Certificates of Deposit	7,974,673	7,374,652	600,021	N/A	N/A
Total Investments	\$ 11,184,964	\$ 7,452,760	\$ 3,732,204		

Investment Type	Fair Value		Total
	Level 1	Level 2	
Money Market Accounts	\$ 78,108	\$	\$ 78,108
US Agencies	1,071,898		1,071,898
Local/State Govt. Bonds		2,060,285	2,060,285
Total Investments by Fair Value	1,150,006	2,060,285	3,210,291
Negotiable Certificates of Deposit	7,974,673		7,974,673
Total Investments	\$ 9,124,679	\$ 2,060,285	\$ 11,184,964

Cash and investments of the component unit, North Kittson Rural Water System, comprised of the following:

Cash	\$	527,200
Investments		2,070,055
Total Cash and Investments	\$	2,597,255

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

- (a) Direct obligations or obligations guaranteed by the United States or its agencies;
- (b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above;

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- (c) General obligations of any state or local government with taxing powers which are rated "A" or better by a national bond rating agency;
- (d) Revenue obligation of any state or local government which is rated "AA" or better by a national bond rating agency;
- (e) Time deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC) or bankers acceptance of United States banks;
- (f) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less;
- (g) Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. Minnesota Statutes require that all County deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of December 31, 2018, the County was not exposed to custodial credit risk. The County does not have a formal investment policy on custodial credit risk.

Custodial Credit Risk – Investments – The custodial credit risk for investments is the risk that, in event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the 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.

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.

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, 2018, the following County investments were subject to concentration of credit risk:

<u>Investment</u>	<u>Fair Value</u>	<u>Concentration Percentage</u>
Federal Home Loan Bank	\$ 579,616	5 %
Federal Farm Credit Bank	492,282	4
Negotiable CD's	7,974,673	72
Municipal Bonds	2,060,285	18
Money Market/Cash	78,108	1
Total	<u>\$ 11,184,964</u>	<u>100</u>

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NOTE 5. TAXES AND SPECIAL ASSESSMENTS RECEIVABLE

The County levies and collects property taxes and special assessments for all governmental units within the County. Taxes and special assessments are billed to individual property owners within the County annually and, for the most part, are due and payable in January but may be paid in two equal installments on or before May 15 and October 15 without penalty.

Property tax and special assessment collections and remittances to other governmental units and County funds are accounted for in the taxes and penalties agency fund.

The County is required to distribute the collections to the various governmental units on a schedule prescribed in Minnesota Statute chapter 276.

NOTE 6. CAPITAL ASSETS

Capital Asset activity for the primary government for the fiscal year ended December 31, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 1,578,981	\$	\$	\$ 1,578,981
Construction in Progress	<u>2,988,127</u>	<u>1,107,513</u>	<u>2,988,127</u>	<u>1,107,513</u>
Total Capital Assets, Not Being Depreciated	<u>4,567,108</u>	<u>1,107,513</u>	<u>2,988,127</u>	<u>2,686,494</u>
Capital Assets, Being Depreciated:				
Infrastructure	79,881,322	5,448,788		85,330,110
Buildings and Improvements	3,462,231			3,462,231
Machinery and Equipment	<u>3,269,258</u>	<u>513,642</u>	<u>217,156</u>	<u>3,565,744</u>
Total Capital Assets, Being Depreciated	<u>86,612,811</u>	<u>5,962,430</u>	<u>217,156</u>	<u>92,358,085</u>
Less Accumulated Depreciation for:				
Infrastructure	25,312,713	1,630,073		26,942,786
Buildings and Improvements	2,411,994	110,679		2,522,673
Machinery and Equipment	<u>2,207,914</u>	<u>256,517</u>	<u>217,156</u>	<u>2,247,275</u>
Total Accumulated Depreciation	<u>29,932,621</u>	<u>1,997,269</u>	<u>217,156</u>	<u>31,712,734</u>
Total Capital Assets, Being Depreciated, net	<u>56,680,190</u>	<u>3,965,161</u>		<u>60,645,351</u>
Governmental Activities Capital Assets, net	<u>\$ 61,247,298</u>	<u>\$ 5,072,674</u>	<u>\$ 2,988,127</u>	<u>\$ 63,331,845</u>

In the governmental activities section of the statement of activities, depreciation expense was charged to the following governmental functions:

General Government	\$ 117,759
Public Safety	76,964
Highways and Streets	<u>1,802,546</u>
	<u>\$ 1,997,269</u>

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Capital Asset activity for the discretely presented component unit for the fiscal year ended December 31, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
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	<u>14,785,645</u>			<u>14,785,645</u>
Less Accumulated Depreciation for:				
Distribution System	3,346,865	116,371		3,463,236
Buildings and Pumps	1,876,817	113,992		1,990,809
Machinery and Equipment	165,136	11,780		176,916
Tower Reconditioning	156,114	15,234		171,348
Total Accumulated Depreciation	<u>5,544,932</u>	<u>257,377</u>		<u>5,802,309</u>
Total Capital Assets, Being Depreciated, net	<u>9,240,713</u>	<u>(257,377)</u>		<u>8,983,336</u>
Governmental Activities Capital Assets, net	<u>\$ 9,349,758</u>	<u>\$ (257,377)</u>	<u>\$</u>	<u>\$ 9,092,381</u>

\$257,377 of depreciation expense was charged to the functions of the North Kittson Rural Water System.

NOTE 7. LONG-TERM DEBT

Long-term debt activity for the primary government for the year ended December 31, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated Absences	\$ 469,135	\$ 308,451	\$ 325,671	\$ 451,915	\$ 185,692

Compensated absences are generally liquidated by the general fund, road and bridge, and social services funds.

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Long-Term Debt - Discretely Presented Component Unit

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

\$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 payment 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 \$2,060. The balance remaining as of December 31, 2018 is \$402,940.

Debt Service Requirements

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

Year Ending December 31	Principal	Interest
2019	\$ 100,000	\$ 11,758
2020	100,000	9,106
2021	100,000	6,308
2022	105,000	3,306
Total	<u>\$ 405,000</u>	<u>\$ 30,478</u>

Long-term debt activity for the discretely presented component unit for the year ended December 31, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
G.O. Water Revenue Crossover Refunding Bonds, Series 2011A	\$ 500,000	\$	\$ 95,000	\$ 405,000	\$ 100,000
Unamortized Discount	(2,574)		(514)	(2,060)	
Compensated Absences	44,837	32,864	40,568	37,133	10,923
Total Long-Term Liabilities	<u>\$ 542,263</u>	<u>\$ 32,864</u>	<u>\$ 135,054</u>	<u>\$ 440,073</u>	<u>\$ 110,923</u>

NOTE 8. PENSION PLANS

Defined Benefit Pension Plans:

Plan Description – The County participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and

KITTSOON COUNTY
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356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan (General Employees Plan; accounted for in the General Employees Fund)

All full-time and certain part-time employees of the County are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

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 a local relief association that elected to merge with and transfer assets and administration to PERA.

Local Government Correctional Plan (Correctional Plan; accounted for in the Correctional Fund)

The Correctional Plan 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.

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. 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.

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.

General Employees 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. The accrual rates for former MERF members is 2.0% for each of the first 10 years of service and 2.5% for each additional year. 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.

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase.

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NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
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Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

Police and Fire Plan Benefits

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

Beginning in 2019, the COLA will be fixed at 1 percent. Under funding measurements from 2017, the 2.5 percent COLA trigger was never expected to occur and was subsequently removed from law. Post retirement increases are given each year except for annuitants who have been receiving a benefit for only 31 to 41 months. These annuitants will receive a prorated amount of the increase on a sliding scale.

Correctional Plan Benefits

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

Beginning January 1, 2019, benefit increases after retirement will equal 100 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 2.5 percent. If the funding status declines to 85 percent for two consecutive years or 80 percent for one year, the maximum increase will be lowered to 1.5 percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018; the County was required to contribute 7.50 percent for Coordinated Plan members. The County and the North Kittson Rural Water System's (System) contributions to the General Employees Fund for the year ended December 31, 2018 were \$231,995 and \$15,776, respectively. The County's and the System's contributions were equal to the required contributions as set by state statute.

Police and Fire Fund Contributions

Legislation increased both employee and employer contribution rates in the Police and Fire Plan. Employee rates increased from 10.80 percent of pay to 11.30 percent and employer rates increase from 16.20 percent to 16.95 percent on January 1, 2018. On January 1, 2020 employee rates increase to 11.80 percent and employer rates increase to 17.70 percent. The County's contributions to the Police and Fire Fund for the year ended December 31, 2018 were \$65,541. The County's contributions were equal to the required contributions as set by state statute.

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Correctional Fund Contributions

Plan members were required to contribute 5.83 percent of their annual covered salary and the County was required to contribute 8.75 percent of pay for plan members in fiscal year 2018. The County's contributions to the Correctional Fund for the year ended December 31, 2018 were \$31,673. The County's contributions were equal to the required contributions as set by state statute.

Pension Costs –

General Employees Fund Pension Costs

At December 31, 2018, the County reported a liability of \$2,085,838 and the System reported a liability of \$171,975 for its proportionate share of the General Employees Fund's net pension liability. The County's and the System's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is 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 the County and the System totaled \$68,440 and \$5,638, respectively. The net pension liability was measured as of June 30, 2018, 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 and the System's proportionate share of the net pension liability was based on the County's and System's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018 the County's proportionate share was 0.0453% which was an increase of 0.0077% from its proportion measured as of June 30, 2017. At June 30, 2018, the System's proportionate share was 0.0031% which was an increase of 0.0001% from its proportion measured as of June 30, 2017.

Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of a 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.

For the year ended December 31, 2018, the County and the System recognized pension expense of \$174,820 and \$(47,739), respectively, for its proportionate share of the General Employee Plan's pension expense. In addition, the County or System recognized an additional \$15,960 and \$1,315, respectively, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, the 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 55,210	\$ 63,387
Difference between projected and actual investment earnings		202,973
Changes in assumptions	207,607	234,367
Changes in proportion	10,754	64,022
Contributions paid to PERA subsequent to the measurement date	96,278	
Total	\$ 369,849	\$ 564,749

\$96,278 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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Year Ending December 31	Pension Expense Amount
2019	\$ 61,808
2020	(140,199)
2021	(169,249)
2022	(43,538)

At December 31, 2018, the System reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 162	\$
Difference between projected and actual investment earnings		20,882
Changes in assumptions		4,912
Changes in proportion	54,497	43,647
Contributions paid to PERA subsequent to the measurement date	8,368	
Total	\$ 63,027	\$ 69,441

\$8,368 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2019	\$ 13,189
2020	(4,072)
2021	(15,823)
2022	(8,076)

Pension Costs –

Police and Fire Fund Pension Costs

At December 31, 2018, the County reported a liability of \$412,502 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportionate share was 0.0387% which was a decrease of 0.0007% from its proportion measured as of June 30, 2017.

Beginning in January 1, 2019, the COLA will be fixed at 1 percent. Under funding measurements from 2017, the 2.5 percent COLA trigger was never expected to occur and was subsequently removed from law.

For the year ended December 31, 2018, the County recognized pension expense of \$34,484 for its proportionate share of Police and Fire Plan's pension expense. The County also recognized \$3,483 for the year ended December 31, 2018 as revenue and an offsetting reduction of net pension liability for its

KITTSOON COUNTY
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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 to begin contributing \$9,000,000 to the Police and Fire Fund each year, starting in fiscal year 2014.

At December 31, 2018, the 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	\$ 16,453	\$ 106,071
Difference between projected and actual investment earnings		79,503
Changes in assumptions	530,068	596,523
Changes in proportion	10,710	79,273
Contributions paid to PERA subsequent to the measurement date	32,771	
Total	\$ 590,002	\$ 861,370

\$32,771 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2019	\$ (21,988)
2020	(42,774)
2021	(66,497)
2022	(173,661)
2023	781

Pension Costs –

Correctional Plan Pension Costs

At December 31, 2018, the County reported a liability of \$25,723 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportionate share was 0.1564% which was a decrease of 0.0064% from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the County recognized pension expense of \$(30,795) for its proportionate share of the Correctional Plan's pension expense.

At December 31, 2018, 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:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,337	\$ 2,638
Difference between projected and actual investment earnings		28,875
Changes in assumptions	116,375	295,303
Changes in proportion	9,291	
Contributions paid to PERA subsequent to the measurement date	15,837	
Total	\$ 142,840	\$ 326,816

\$15,837 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2019	\$ 11,305
2020	(110,045)
2021	(95,688)
2022	(5,385)

Actuarial Assumptions – The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

	General Employees Plan	Police & Fire Plan	Correctional Plan
Inflation	2.5% Per Year	2.5% Per Year	2.5% Per Year
Salary Growth	3.25% after 26 years of service	3.25% after 25 years of service	3.25% at age 65
Investment Rate of Return	7.50%	7.50%	7.50%

The total pension liability for each of the defined benefit cost-sharing plans was determined by an actuarial valuation as of June 30, 2018, using the entry age normal actuarial cost method. Inflation is assumed to be 2.50 percent for the General Employees and Police and Fire Plans. Inflation is assumed to be 2.00 percent for the Correctional Plan. Salary growth assumptions in the General Employees Plan decrease in annual increments from 11.25 percent after one year of service, to 3.25 percent after 26 years of service. In the Police and Fire Plan, salary growth assumptions decrease from 12.25 percent after one year of service to 3.25 percent after 25 years of service. In the Correctional Plan, salary growth assumptions decrease from 8.50 percent at age 20 to 3.25 percent at age 65.

Mortality rates for all plans are based on RP-2014 mortality tables. The tables are adjusted slightly to fit PERA's experience. Actuarial assumptions for the General Employees Plan are reviewed every four to six years. The most recent six-year experience study for the General Employees Plan was completed in 2015. The most recent four-year experience study for the Police and Fire Plan was completed in 2016. The most recent five-year experience study for the Correctional Plan, prepared by a former actuary, was completed in 2012. Economic assumptions were updated in 2014 based on a review of inflation and investment return assumptions.

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The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Police and Fire Fund

- The mortality projection scale was changed from MP-2016 to MP-2017.

Correctional Fund

- The Single Discount Rate was changed from 5.96 percent per annum to 7.50 percent per annum.
- The mortality projection scale was changed from MP-2016 to MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds (Fixed Income)	20%	0.75%
Alternative Assets (Private Markets)	25%	5.90%
Cash	2%	0.00%

Discount Rate – The discount rate used to measure the total pension liability in 2018 was 7.50 percent. 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 positions of the General Employees Fund, the Police and Fire Fund, and the Correctional Fund were projected to be available to make all projected future benefit payments of current plan 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.

Pension Liability Sensitivity – The following presents the 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 the County’s proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

KITTSON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
DECEMBER 31, 2018

County Proportionate Share of NPL

	<u>1% Decrease (6.5%)</u>		<u>Current (7.5%)</u>		<u>1% Increase (8.5%)</u>
General Employees Fund	\$ 3,389,754	\$	2,085,838	\$	1,009,493
Police and Fire Fund	\$ 884,430	\$	412,502	\$	22,237
Correctional Fund	\$ 220,146	\$	25,723	\$	(129,809)

Pension Plan Fiduciary Net Position – Detailed information about each defined benefit pension plan’s fiduciary net position is available in a separately issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org.

The County recognized total pension expense of \$178,509 for all of the pension plans in which it participates. North Kittson Rural Water System recognized total pension expense of \$(47,739).

Public Employees Defined Contribution Plan:

Six employees are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by PERA. The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official’s employer. Employees who are paid for their service may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1%(.0025) of the assets in each member’s account annually.

Total contributions made by Kittson County during fiscal year 2018 were:

<u>Contribution Amount</u>		<u>Percentage of Payroll</u>		<u>Required</u>
<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Rate</u>
\$ 7,924	\$ 7,924	5%	5%	5%

KITTSON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
DECEMBER 31, 2018

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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

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

Employees Covered by Benefit Term – At December 31, 2018, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	3
Active plan members	77
Total Members	80

Total OPEB Liability – The County’s total OPEB liability of \$526,384 was measured as of January 1, 2018 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions – The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5 percent
Salary increases	3.0 percent, average, including inflation
Healthcare Cost Trend Rates	6.5 percent decreasing to 5.0 percent over 6 years

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel)

The discount rate is based on the estimated yield of 20-year AA-rated municipal bonds. The overall single discount rate is 3.30%.

In the January 1, 2018 actuarial valuation, the entry age, level percentage of pay actuarial cost method was used.

KITTSOON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
DECEMBER 31, 2018

Changes in the Total OPEB Liability:

		Total OPEB Liability
Balances at 12/31/2017	\$	499,803
Changes for the year:		
Service Cost		42,869
Interest Cost		17,358
Benefit Payments		(33,646)
Net Changes		26,581
Balances at 12/31/2018	\$	526,384

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the County, as well as what the County’s total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.4 percent) or one percentage point higher (4.4 percent) than the current rate:

County Total OPEB Liability		
1% Decrease (2.3%)	Current (3.3%)	1% Increase (4.3%)
\$ 556,328	\$ 526,384	\$ 497,764

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the County, as well as what the County’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.5 percent decreasing to 4.0 percent over 6 years) or one percentage point higher (7.5 percent decreasing to 6.0 percent over 6 years) than the current healthcare cost trend rates:

County Healthcare Cost Trend Rates		
(5.5% decreasing to 4.0% over 6 years)	(6.5% decreasing to 5.0% over 6 years)	(7.50% decreasing to 6.0% over 6 years)
\$ 485,289	\$ 526,384	\$ 573,759

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended December 31, 2018, the County recognized OPEB expense of \$60,227. At December 31, 2018, the County reported outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions paid subsequent to the measurement date	\$ 28,433	\$
Total	\$ 28,433	\$

\$28,433 reported as deferred outflows of resources related to OPEB resulting from County contributions to OPEB subsequent to the measurement date will be recognized as a reduction of the total pension liability in the year ending December 31, 2019.

KITTSOON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
DECEMBER 31, 2018

NOTE 10. INTERFUND RECEIVABLE AND PAYABLES

The composition of interfund balances as of December 31, 2018, is as follows:

Due to / from other funds:

Receivable	Payable	Amount
Road and Bridge	General	\$ 1,789
Road and Bridge	Nonmajor Funds	9,877
		\$ 11,666

The receivables between funds result from loans and interfund services provided and used.

Advances from/ to other funds:

Receivable	Payable	Amount
General	Nonmajor Funds	\$ 73,200
General	Road and Bridge	250,000
		\$ 323,200

The Ditch Fund advance is to provide working capital to ditch systems with low cash reserves and operating costs in excess of revenues.

NOTE 11. CONTINGENT LIABILITIES

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

KITTSOON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
DECEMBER 31, 2018

NOTE 12. FUND BALANCES

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:					
Inventory	\$	\$ 283,895	\$	\$	\$ 283,895
Advance	323,200				323,200
Total Nonspendable	<u>323,200</u>	<u>283,895</u>			<u>607,095</u>
Restricted for:					
Aquatic Invasive Species	30,668				30,668
Corrections supervision	8,301				8,301
DWI Assessment	5,895				5,895
Enhanced 911	311,746				311,746
Handgun Permits	25,519				25,519
Help America Vote Act	27,480				27,480
Law Library	1,161				1,161
Missing Heirs	6,320				6,320
Probation	1,640				1,640
Recorder's Equipment	125,470				125,470
Riparian Protection Aid	15,071				15,071
SCORE	48,613				48,613
Sheriff's Contingent Fund	838				838
Technology	156,250				156,250
Vehicle Seizures	4,898				4,898
Victim Assistance	2,997				2,997
Water Planning	6,544				6,544
LEPC	6,159				6,159
Gravel Pit Restoration		136,073			136,073
Township				181,572	181,572
Ditch				478,870	478,870
Total Restricted	<u>785,570</u>	<u>136,073</u>		<u>660,442</u>	<u>1,582,085</u>
Assigned for:					
Riparian Protection Aid	175,683				175,683
Building and Grounds	500,000				500,000
Highway Shop	185,208				185,208
Road and Bridge		272,017			272,017
Social Services			2,041,409		2,041,409
Total Assigned	<u>860,891</u>	<u>272,017</u>	<u>2,041,409</u>		<u>3,174,317</u>
Unassigned	<u>2,585,636</u>			<u>(70,425)</u>	<u>2,515,211</u>
Total Fund Balance	<u>\$ 4,555,297</u>	<u>\$ 691,985</u>	<u>\$ 2,041,409</u>	<u>\$ 590,017</u>	<u>\$ 7,878,708</u>

NOTE 13. 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; employee health and dental coverage; 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. For all other risk, the County has purchased commercial insurance. There were no significant reductions in insurance

KITTSON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
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from the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total 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 for plan year 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 three years.

NOTE 14. JOINT VENTURES

Homeland Security Emergency Management (HSEM) Region 3 Emergency Managers Joint Powers Board

The HSEM Region 3 Emergency Management Joint Powers Board was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minnesota Statutes, § 471.59 and Minnesota Statutes, Chapter 12. Members include Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomon, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The 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 2018, Kittson County did not make a contribution to the Board.

Complete financial information can be obtained from the Clay County Sheriff's Office, 915 9th 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 position at that time shall be distributed to the respective member counties in proportion to the contributions made by each.

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NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
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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 expenses. Kittson County did not make any contributions to the Relay Station for the year ended December 31, 2018.

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

MarKit Landfill

The MarKit 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 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 MarKit 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 layperson from each county, as provided in the Landfill's bylaws. In the event of dissolution of the MarKit Landfill Joint Powers Board, the net position of the Landfill at that time shall be divided among 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.

Financing is provided by charges for services and appropriations from member counties. Kittson County, in an agent capacity, reports the cash transactions of the Landfill as an agency fund on its financial statements. Kittson County appropriated \$25,000 to the Landfill for the year ended December 31, 2018. The source of this appropriation is State of Minnesota SCORE funding.

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 2017 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, Mahnommen, 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.

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

KITTSON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
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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 no funds to the Northwest Emergency Communications Board for the year ended December 31, 2018.

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 (NWCS) was established in February 1977, pursuant to Minnesota Statute §§ 471.59 and 123.582 (now Minnesota Statute § 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.

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, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomon, Marshall, Pennington, Polk, Roseau, and Wadena Counties. The purpose of the Association is to provide a mechanism whereby the counties may cooperatively provide for a data processing disaster recovery plan and back-up system.

Control of the Association is vested in the Northwestern Counties Data Processing Security Association Joint Powers Board, composed of one county commissioner appointed by each member county board. In the event of dissolution, the net position 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. Kittson County did not contribute to the Association for the year ended December 31, 2018. 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 North Main Avenue, Bagley, Minnesota 56621.

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Northwest Minnesota Household Hazardous Waste Management Group

The Northwest 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 Northwest 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 Northwest Minnesota Household Hazardous Waste Management Group Joint Powers Board, the net position of the Waste Management Group at that time shall be divided among the member counties in the same proportion as their respective financial responsibilities.

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Kittson County contributed \$4,190 to the Waste Management Group for the year ended December 31, 2018. Clearwater County, in an agent capacity, reports the cash transactions as an agency fund on its financial statements.

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

Northwestern Minnesota Juvenile Center

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

Control of the Center is vested in the Northwestern Minnesota Juvenile Center Joint Powers Board, which is composed of 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 amount 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.

KITTSON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
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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 five member counties, as provided in the Health Service's bylaws. In the event of dissolution, the net position shall be divided among the member counties in the same proportion as their respective financial responsibilities as determined by county population.

The Health Service has no long-term debt. Financing is provided by state and federal grants, charges for services, and appropriations from the member counties when needed. Marshall County, in an agent capacity, reports the cash transactions of the Health Service as an agency fund on its financial statements.

Complete financial information can be obtained from the Marshall County Auditor/Treasurer's Office, 208 E. Colvin Ave., Warren, MN 56762 or the Quin County Community Health Service's office at 136 W. Minnesota Ave., Newfolden, Minnesota 56738.

Williams Mobile Relay Station

The Williams Mobile Relay Station was formed in 1975 under the authority of the Joint Powers Act, pursuant to Minnesota Statute § 471.59, and includes Kittson, 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 Williams Mobile Relay Station is vested in an advisory board, 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 position at that 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 expenses. Kittson County made no contributions to the Relay Station for the year ended December 31, 2018.

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

NOTE 15. RELATED ORGANIZATION

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.

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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 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.

NOTE 16. 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 Development Commissioner'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
NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
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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 2018, the County contributed \$1,688 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 power 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 \$4,675 and contract payments of \$56,756 to the MCCC for the year ended 2018. 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 Aitken, 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.

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, Mahnomon, Norman, Polk and Red Lake Counties. Its 54 members include school districts and special education districts, and agencies in the area of social services, public health, mental health and corrections. The primary goal of the Council is to promote the welfare of youth and families in the six-county area by coordinating human and financial resources to maximize the efficiency of services offered by its members. The Council also works to expand the resource base available to meet the growing needs of its population.

KITTSON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
DECEMBER 31, 2018

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, 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 \$65,000 to the Library for the year ended December 31, 2018.

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 a 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, 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 Northwest Workforce 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.

KITTSON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
DECEMBER 31, 2018

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.

NOTE 17. NEW PRONOUNCEMENTS

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby

KITTSOON COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS-CONTINUED
DECEMBER 31, 2018

enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Management has not yet determined the effects these statements will have on the County's financial statements.

KITTSOON COUNTY
SCHEDULE OF COUNTY CONTRIBUTIONS
LAST 10 YEARS

	<u>Fiscal Year Ended December 31</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>County's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
General Employees Fund	2015	\$ 169,068	\$ 169,068	\$	2,254,240	7.50 %
	2016	180,969	180,969		2,412,924	7.50
	2017	221,585	221,585		2,954,445	7.50
	2018	231,995	231,995		3,093,256	7.50
Police and Fire Fund	2015	60,843	60,843		375,571	16.20
	2016	62,310	62,310		384,750	16.20
	2017	64,268	64,268		396,714	16.20
	2018	65,541	65,541		404,571	16.20
Correctional Fund	2015	23,478	23,478		268,318	8.75
	2016	29,920	29,920		341,947	8.75
	2017	25,930	25,930		296,340	8.75
	2018	31,673	31,673		361,979	8.75

The County implemented GASB Statement No. 68 for its fiscal year ended December 31, 2015. Information for the prior years is not available.

See Notes To The Required Supplementary Information

KITTSOON COUNTY
SCHEDULE OF COUNTY'S SHARE OF NET PENSION LIABILITY
LAST 10 YEARS

	<u>Fiscal Year Ended June 30</u>	<u>County's Proportion of the Net Pension Liability</u>	<u>County's Proportionate Share of the Net Pension Liability</u>	<u>State's Proportionate Share of the Net Pension Liability Associated with the County</u>	<u>Total</u>	<u>County's Covered Payroll</u>	<u>County's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
General Employees Fund	2015	0.0462 %	\$ 2,061,274	\$	\$ 2,061,274	\$ 2,220,800	92.82 %	78.19 %
	2016	0.0392	3,180,897	12,383	3,193,280	2,350,040	135.36	68.90
	2017	0.0376	2,400,295	30,209	2,430,504	2,675,113	89.73	75.90
	2018	0.0453	2,085,838	68,440	2,154,278	3,023,851	68.98	79.53
Police and Fire Fund	2015	0.0420	477,218		477,218	388,286	122.90	86.61
	2016	0.0400	1,605,270		1,605,270	374,187	429.00	63.90
	2017	0.0380	513,045	3,420	516,465	393,962	130.23	85.43
	2018	0.0387	412,502	3,483	415,985	400,643	102.96	88.84
Correctional Fund	2015	0.1500	23,190		23,190	267,669	8.66	96.95
	2016	0.1500	547,971		547,971	298,617	183.50	58.16
	2017	0.1500	427,502		427,502	317,131	134.80	67.89
	2018	0.1564	25,723		25,723	329,160	7.81	97.64

The amounts presented for each year were determined as of the measurement date of the collective net pension liability, which is June 30.

The County implemented GASB Statement No. 68 for its fiscal year ended December 31, 2015. Information for the prior years is not available.

See Notes To The Required Supplementary Information

KITTSOON COUNTY
SCHEDULE OF CHANGES IN THE COUNTY'S TOTAL OPEB LIABILITY AND RELATED RATIOS
LAST 10 YEARS

	2018
Total OPEB Liability	
Service Cost	\$ 42,869
Interest	17,358
Benefit Payments	(33,646)
Net Change in Total OPEB Liability	26,581
Total OPEB Liability - Beginning	499,803
Total OPEB Liability - Ending	\$ 526,384
Covered Payroll	\$ 3,906,567
County's Total OPEB Liability as a Percentage of Payroll	13.47%

The County implemented GASB No. 75 for the fiscal year ended December 31, 2018.
Information from prior years is not available.

See Notes To The Required Supplementary Information

KITTSON COUNTY
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Original and Final Budget	Actual	Over (Under) Final Budget
REVENUES			
Taxes	\$ 2,290,369	\$ 2,322,990	\$ 32,621
Licenses and Permits	3,000	1,645	(1,355)
Intergovernmental	1,062,515	1,422,250	359,735
Charges for Services	216,055	217,138	1,083
Investment Income	200,200	99,421	(100,779)
Miscellaneous	284,123	364,042	79,919
TOTAL REVENUES	4,056,262	4,427,486	371,224
EXPENDITURES			
Current			
General Government			
Commissioners	200,743	213,356	12,613
District Court	40,000	27,816	(12,184)
Law Library	4,000	3,735	(265)
County Administration	449,415	453,418	4,003
Assessor	317,507	357,644	40,137
Elections	27,000	26,743	(257)
Professional Services	76,000	88,059	12,059
Data Processing	158,650	103,690	(54,960)
Attorney	100,918	143,502	42,584
Recorder	158,216	163,097	4,881
Planning and Zoning	60,736	57,745	(2,991)
Surveyor	1,000	1,950	950
Grounds and Buildings	241,252	205,309	(35,943)
GIS/LIS	5,000	5,183	183
Veteran Services	41,000	45,556	4,556
Insurance	55,500	50,828	(4,672)
Other General Government	338,038	277,210	(60,828)
Total General Government	2,274,975	2,224,841	(50,134)
Public Safety			
Sheriff	799,456	855,790	56,334
Boat and Water Safety	500		(500)
Community Corrections	113,532	110,275	(3,257)
Coroner	10,480	10,283	(197)
Enhanced 911	35,000	49,107	14,107
Emergency Management	53,530	66,766	13,236
Fire Protection	500	5,000	4,500
Strategic Highway Safety Plan	85,000	86,681	1,681
Operation Stonegarden	199,623	205,144	5,521
Probation and Parole	33,000	35,057	2,057
Transmission Tower	6,500	3,174	(3,326)
Victim Services	100	60	(40)
Total Public Safety	1,337,221	1,427,337	90,116

continued

See Notes To The Required Supplementary Information

KITTSON COUNTY
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Original and Final Budget	Actual	Over (Under) Final Budget
EXPENDITURES			
Current - Continued			
Sanitation			
Recycling	9,559	29,456	19,897
Solid Waste	73,265	81,840	8,575
Total Sanitation	82,824	111,296	28,472
Health			
Ambulance	26,640	26,640	
Hospice	7,500	7,500	
Kittson Wellness	801	566	(235)
Total Health	34,941	34,706	(235)
Culture and Recreation			
Historical Society	61,000	61,000	
Regional Library	65,000	65,000	
Veterans Organizations	500	500	
Total Culture and Recreation	126,500	126,500	
Conservation of Natural Resources			
Agricultural Inspection	19,200	26,700	7,500
Agricultural Societies	22,500	22,500	
County Extension	119,006	125,243	6,237
Predator and Weed Control	2,600	2,018	(582)
Soil and Water Conservation	124,220	273,790	149,570
Total Conservation of Natural Resources	287,526	450,251	162,725
Economic Development	10,000	10,000	
Capital Outlay			
General Government	179,943	100,027	(79,916)
Public Safety	75,500	40,213	(35,287)
Sanitation	10,320	10,000	(320)
Conservation of Natural Resources	2,000	407	(1,593)
Total Capital Outlay	267,763	150,647	(117,116)
TOTAL EXPENDITURES	4,421,750	4,535,578	113,828
REVENUES OVER (UNDER) EXPENDITURES	(365,488)	(108,092)	257,396
OTHER FINANCING USES			
Transfers Out	(17,423)		17,423
TOTAL OTHER FINANCING USES	(17,423)		17,423
Net Change In Fund Balances	(382,911)	(108,092)	274,819
Fund Balances - Beginning	4,663,389	4,663,389	
Fund Balances - Ending	\$ 4,280,478	\$ 4,555,297	\$ 274,819

See Notes To The Required Supplementary Information

KITTSOON COUNTY
BUDGETARY COMPARISON SCHEDULE FOR THE ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Original and Final Budget	Actual	Over (Under) Final Budget
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Taxes	\$ 706,507	\$ 697,256	\$ (9,251)
Intergovernmental	5,478,090	5,325,917	(152,173)
Charges for Services	504,650	427,254	(77,396)
Miscellaneous	138,887	257,997	119,110
	<u>6,828,134</u>	<u>6,708,424</u>	<u>(119,710)</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
Highways and Streets			
Administration	626,186	441,436	(184,750)
Engineering	515,519	384,805	(130,714)
Equipment Maintenance and Shop	1,057,094	992,771	(64,323)
Highways and Streets	517,058	427,121	(89,937)
Capital Outlay			
Highways and Streets	4,144,539	3,728,672	(415,867)
	<u>6,860,396</u>	<u>5,974,805</u>	<u>(885,591)</u>
TOTAL EXPENDITURES			
Net Change In Fund Balances	(32,262)	733,619	765,881
Fund Balances - Beginning	(41,634)	(41,634)	
Fund Balances - Ending	<u>\$ (73,896)</u>	<u>\$ 691,985</u>	<u>\$ 765,881</u>

See Notes To The Required Supplementary Information

KITTSOON COUNTY
BUDGETARY COMPARISON SCHEDULE FOR THE SOCIAL SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Original and Final Budget	Actual	Over (Under) Final Budget
REVENUES			
Taxes	\$ 772,915	\$ 765,680	\$ (7,235)
Intergovernmental	711,999	911,150	199,151
Charges for Services	94,710	70,974	(23,736)
Miscellaneous	58,500	106,559	48,059
	<u>1,638,124</u>	<u>1,854,363</u>	<u>216,239</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
Human Services			
Income Maintenance	462,283	523,205	60,922
Social Services	1,148,141	1,083,285	(64,856)
Capital Outlay - Human Services	27,700	35,091	7,391
	<u>1,638,124</u>	<u>1,641,581</u>	<u>3,457</u>
TOTAL EXPENDITURES			
Net Change In Fund Balances		212,782	212,782
Fund Balances - Beginning	<u>1,828,627</u>	<u>1,828,627</u>	<u> </u>
Fund Balances - Ending	<u>\$ 1,828,627</u>	<u>\$ 2,041,409</u>	<u>\$ 212,782</u>

See Notes To The Required Supplementary Information

KITTSOON COUNTY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018

NOTE 1. BUDGETARY INFORMATION

General Budget Policies

The county board adopts estimated revenue and expenditure budgets for the general fund and the majority of the special revenue funds on a basis consistent with generally accepted accounting principles. The expenditure budget is approved at the total fund level.

The budgets may be amended or modified at any time by the county board. Comparisons of estimated revenues and expenditures to actual are presented in the financial statements for the general fund and special revenue funds.

Encumbrances

Encumbrance accounting, under which commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation, is used in the governmental funds. Encumbrances outstanding at year-end are reported as reserved fund balance since they do not constitute expenditures or liabilities. All appropriations, which are not expended, encumbered, or reserved lapse at year-end.

NOTE 2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2018, expenditures exceeded appropriations in the general fund and the social services fund by \$113,828 and \$3,457, respectively. The over expenditures were funded by greater than anticipated revenues.

NOTE 3. DEFINED BENEFIT PLANS

General Employees Fund

2018 Changes

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 Changes

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.

2016 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.

KITTSOON COUNTY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
DECEMBER 31, 2018

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

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.

Changes in Actuarial Assumptions:

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

Police and Fire Fund

2018 Changes

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2016 to MP-2017.

2017 Changes

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 disabled 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.

- 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.

2016 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.

- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.

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

KITTSOON COUNTY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
DECEMBER 31, 2018

2015 Changes

Changes in Plan Provisions:

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

Changes in Actuarial Assumptions:

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

Correctional Fund

2018 Changes

Changes in Actuarial Assumptions:

- The Single Discount Rate was changed from 5.96 percent per annum to 7.50 percent per annum.
- The mortality projection scale was changed from MP-2016 to MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.

2017 Changes

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

2016 Changes

Changes in Actuarial Assumptions:

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

KITTSOON COUNTY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
DECEMBER 31, 2018

NOTE 4. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Changes:

- The prior valuation did not include the subsidized post-employment benefit for elected officials terminating or retiring with 10 or more years of service.

Assumption Changes:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2014 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel) to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel).
- The retirement and withdrawal tables for all employees were updated.
- There are three elected officials over age 65 that retired in early 2019 and received a subsidized payment. The retirement assumption was updated for these three to reflect 0% retirement in 2018 and 100% retirement in 2019.
- The discount rate was changed from 4.00% to 3.30%.

Method Changes:

- The actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB 75.

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COMBINING FINANCIAL STATEMENTS NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Ditch Fund – This 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.

Unorganized Townships Fund – This 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.

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KITTSOON COUNTY
COMBINING BALANCE SHEET- NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	Special Revenue Funds		Total
	Ditch	Unorganized Townships	Governmental Funds
ASSETS			
Cash and Investments	\$ 480,608	\$ 184,796	\$ 665,404
Special Assessments Receivable			
Current	3,539		3,539
Delinquent	797		797
Noncurrent	177,266		177,266
Due from Other Governments	6,726		6,726
TOTAL ASSETS	\$ 668,936	\$ 184,796	\$ 853,732
LIABILITIES			
Accounts Payable	\$ 750	\$	\$ 750
Due to Other Governments	2,104		2,104
Advances from Other Funds	73,200		73,200
Due to Other Funds	6,653	3,224	9,877
TOTAL LIABILITIES	82,707	3,224	85,931
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue			
Special Assessments	177,784		177,784
TOTAL DEFERRED INFLOWS OF RESOURCES	177,784		177,784
FUND BALANCES			
Restricted	478,870	181,572	660,442
Unassigned	(70,425)		(70,425)
TOTAL FUND BALANCES	408,445	181,572	590,017
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 668,936	\$ 184,796	\$ 853,732

KITTSOON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Special Revenue Funds</u>		Total Governmental Funds
	<u>Ditch</u>	<u>Unorganized Townships</u>	
REVENUES			
Special Assessments	\$ 140,107	\$	\$ 140,107
Taxes		75,467	75,467
Intergovernmental		20,254	20,254
Charges for Services	8,552		8,552
Miscellaneous Revenue	<u>1,650</u>		<u>1,650</u>
TOTAL REVENUES	<u>150,309</u>	<u>95,721</u>	<u>246,030</u>
EXPENDITURES			
Current:			
Conservation of Natural Resources	140,242		140,242
Highways and Streets		<u>70,604</u>	<u>70,604</u>
TOTAL EXPENDITURES	<u>140,242</u>	<u>70,604</u>	<u>210,846</u>
Net Change in Fund Balances	10,067	25,117	35,184
Fund Balances - Beginning	<u>398,378</u>	<u>156,455</u>	<u>554,833</u>
Fund Balances - Ending	<u>\$ 408,445</u>	<u>\$ 181,572</u>	<u>\$ 590,017</u>

AGENCY FUNDS

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

Flexible Benefits Fund – This fund is used to account for the payroll deductions of employees enrolled in the flexible spending program.

Forfeited Tax Sale Fund – This 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.

Kittson Health Insurance Fund – This fund is used to account and report financial resources assigned to commercial health insurance.

Kittson County Children's Collaborative Fund – This fund is used to account for the receipt and disbursement of funds for the Kittson County Children's Collaborative.

Kittson County Economic Development Authority Fund – This fund is used to account for the receipts and disbursements of funds for the Kittson County Economic Development Authority.

Kittson-Marshall Rural Water System Fund – This 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.

Mar-Kit Landfill Fund – This fund is used to account for the receipt and disbursement of funds for the Mar-Kit Landfill Joint Venture.

State Agency Fund – This fund is used to account for money, such as taxes, that is passed on to the State of Minnesota.

Tax and Penalties Fund – This 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.

Watershed Ditch Fund – This fund is used to account for the receipt and disbursement of funds for the Watershed ditches.

KITTSON COUNTY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES- ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Balance</u> <u>January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>December 31</u>
<u>Agency</u>				
ASSETS				
Cash and Investments	\$ <u>28,253</u>	\$ <u>6,301,050</u>	\$ <u>6,313,838</u>	\$ <u>15,465</u>
LIABILITIES				
Due to Other Governments	\$ <u>28,253</u>	\$ <u>6,301,050</u>	\$ <u>6,313,838</u>	\$ <u>15,465</u>
<u>Flexible Benefits</u>				
ASSETS				
Cash and Investments	\$ <u>5,542</u>	\$ <u>18,173</u>	\$ <u>19,565</u>	\$ <u>4,150</u>
LIABILITIES				
Due to Other Governments	\$ <u>5,542</u>	\$ <u>18,173</u>	\$ <u>19,565</u>	\$ <u>4,150</u>
<u>Forfeited Tax</u>				
ASSETS				
Cash and Investments	\$ <u>(1)</u>	\$ <u>2,079</u>	\$ <u>1,007</u>	\$ <u>1,071</u>
LIABILITIES				
Due to Other Governments	\$ <u>(1)</u>	\$ <u>2,079</u>	\$ <u>1,007</u>	\$ <u>1,071</u>
<u>Kittson Health Insurance</u>				
ASSETS				
Cash and Investments	\$ <u>5,434</u>	\$ <u>850,815</u>	\$ <u>851,224</u>	\$ <u>5,025</u>
LIABILITIES				
Due to Other Governments	\$ <u>5,434</u>	\$ <u>850,815</u>	\$ <u>851,224</u>	\$ <u>5,025</u>
<u>Kittson County Children's Collaborative</u>				
ASSETS				
Cash and Investments	\$ <u>11,328</u>	\$ <u>641</u>	\$ <u>1,845</u>	\$ <u>10,124</u>
LIABILITIES				
Due to Other Governments	\$ <u>11,328</u>	\$ <u>641</u>	\$ <u>1,845</u>	\$ <u>10,124</u>
<u>Kittson County Economic Development Authority</u>				
ASSETS				
Cash and Investments	\$ <u>158,827</u>	\$ <u>1,284</u>	\$ <u>3,155</u>	\$ <u>156,956</u>
LIABILITIES				
Due to Other Governments	\$ <u>158,827</u>	\$ <u>1,284</u>	\$ <u>3,155</u>	\$ <u>156,956</u>

Continued

KITTSON COUNTY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES- ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Balance</u> <u>January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>December 31</u>
<u>Kittson- Marshall Rural Water System</u>				
ASSETS				
Cash and Investments	\$ <u>1,852</u>	\$ <u> </u>	\$ <u> </u>	\$ <u>1,852</u>
LIABILITIES				
Due to Other Governments	\$ <u>1,852</u>	\$ <u> </u>	\$ <u> </u>	\$ <u>1,852</u>
<u>Mar-Kit Landfill</u>				
ASSETS				
Cash and Investments	\$ <u>5,321,897</u>	\$ <u>2,898,162</u>	\$ <u>3,488,196</u>	\$ <u>4,731,863</u>
LIABILITIES				
Due to Other Governments	\$ <u>5,321,897</u>	\$ <u>2,898,162</u>	\$ <u>3,488,196</u>	\$ <u>4,731,863</u>
<u>State</u>				
ASSETS				
Cash and Investments	\$ <u>(5,986)</u>	\$ <u>2,095,409</u>	\$ <u>2,096,707</u>	\$ <u>(7,284)</u>
LIABILITIES				
Due to Other Governments	\$ <u>(5,986)</u>	\$ <u>2,095,409</u>	\$ <u>2,096,707</u>	\$ <u>(7,284)</u>
<u>Taxes and Penalties</u>				
ASSETS				
Cash and Investments	\$ <u>271,671</u>	\$ <u>11,651,848</u>	\$ <u>11,650,666</u>	\$ <u>272,853</u>
LIABILITIES				
Due to Other Governments	\$ <u>271,671</u>	\$ <u>11,651,848</u>	\$ <u>11,650,666</u>	\$ <u>272,853</u>
<u>Watershed Ditch</u>				
ASSETS				
Cash and Investments	\$ <u>(126)</u>	\$ <u>3,978</u>	\$ <u>3,507</u>	\$ <u>345</u>
LIABILITIES				
Due to Other Governments	\$ <u>(126)</u>	\$ <u>3,978</u>	\$ <u>3,507</u>	\$ <u>345</u>
<u>Total</u>				
ASSETS				
Cash and Investments	\$ <u>5,798,691</u>	\$ <u>23,823,439</u>	\$ <u>24,429,710</u>	\$ <u>5,192,420</u>
LIABILITIES				
Due to Other Governments	\$ <u>5,798,691</u>	\$ <u>23,823,439</u>	\$ <u>24,429,710</u>	\$ <u>5,192,420</u>

KITTSON COUNTY
BALANCE SHEET – BY DITCH – DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2018

Assets						
	Cash and Investments	Special Assessments Receivable- Current	Special Assessments Receivable- Delinquent	Special Assessments Receivable- Noncurrent	Due from Other Governments	Total Assets
County Ditches						
1	\$ 43,645					\$ 43,645
4	14,155	140		5,500		19,795
8	19,886	127		5,000		25,013
9	15,172	127		3,000		18,299
11	10,302	13		500		10,815
12	2,719	274		20,000		22,993
13	5,889	171		5,000		11,060
14	2,782	13		500		3,295
15	7,310	52		4,000		11,362
16	42,987					42,987
17	16,612			2,000		18,612
18	12,446	25		1,000		13,471
19	6	382		17,500		17,888
20	8,423	38		2,000		10,461
21	1,832	51		2,000		3,883
22	23,228	13		2,000		25,241
23	2,459	76		6,000		8,535
25	12,263					12,263
26	14,869	25		2,000		16,894
27	12,654	114		4,500		17,268
28	17,265	13		3,000		20,278
29	15,924	13		3,000		18,937
30	3,552	76		3,000		6,628
31	29,617	191		5,000		34,808
33	10,474			8,000		18,474
Joint County Ditches						
31	101	203		8,000		8,304
32	9,622	76		3,000		12,698
33	4,560	35		1,496		6,091
State Ditches						
1	21,086	114		4,500		25,700
48R	3,813	242		9,500		13,555
50	17,249	76	797	3,300	111	21,533
72	18,098	245		11,576	2,730	32,649
84	66	254		15,000		15,320
85	22,055	76		3,000		25,131
90	98	284		13,394	1,877	15,653
95	37,389				2,008	39,397
	<u>\$ 480,608</u>	<u>\$ 3,539</u>	<u>\$ 797</u>	<u>\$ 177,266</u>	<u>\$ 6,726</u>	<u>\$ 668,936</u>

continued

KITTSON COUNTY
BALANCE SHEET – BY DITCH – DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2018

	Liabilities				Fund Balances			Total Liabilities, Deferred Inflows of Resources, and Fund Balances	
	Accounts Payable	Due to Other Governments	Advances and Due to Other Funds	Total Liabilities	Deferred Inflows of Resources	Restricted	Unassigned		Total Fund Balances
County Ditches									
1	\$ 450			\$ 450		\$ 43,195		\$ 43,195	\$ 43,645
4					5,500	14,295		14,295	19,795
8					5,000	20,013		20,013	25,013
9					3,000	15,299		15,299	18,299
11			274	274	500	10,041		10,041	10,815
12					20,000	2,993		2,993	22,993
13					5,000	6,060		6,060	11,060
14			861	861	500	1,934		1,934	3,295
15					4,000	7,362		7,362	11,362
16						42,987		42,987	42,987
17					2,000	16,612		16,612	18,612
18					1,000	12,471		12,471	13,471
19			28,800	28,800	17,500		(28,412)	(28,412)	17,888
20					2,000	8,461		8,461	10,461
21					2,000	1,883		1,883	3,883
22					2,000	23,241		23,241	25,241
23					6,000	2,535		2,535	8,535
25						12,263		12,263	12,263
26					2,000	14,894		14,894	16,894
27					4,500	12,768		12,768	17,268
28					3,000	17,278		17,278	20,278
29					3,000	15,937		15,937	18,937
30					3,000	3,628		3,628	6,628
31					5,000	29,808		29,808	34,808
33					8,000	10,474		10,474	18,474
Joint County Ditches									
31			6,680	6,680	8,000		(6,376)	(6,376)	8,304
32					3,000	9,698		9,698	12,698
33		45		45	1,496	4,550		4,550	6,091
State Ditches									
1					4,500	21,200		21,200	25,700
48R			7,416	7,416	9,500		(3,361)	(3,361)	13,555
50	300		115	415	3,818	17,300		17,300	21,533
72		1,692	375	2,067	11,576	19,006		19,006	32,649
84			14,370	14,370	15,000		(14,050)	(14,050)	15,320
85			115	115	3,000	22,016		22,016	25,131
90		367	20,118	20,485	13,394		(18,226)	(18,226)	15,653
95			729	729		38,668		38,668	39,397
	<u>\$ 750</u>	<u>\$ 2,104</u>	<u>\$ 79,853</u>	<u>\$ 82,707</u>	<u>\$ 177,784</u>	<u>\$ 478,870</u>	<u>\$ (70,425)</u>	<u>\$ 408,445</u>	<u>\$ 668,936</u>

KITTSOON COUNTY
BALANCE SHEET – BY UNORGANIZED TOWNSHIP –
UNORGANIZED TOWNSHIP SPECIAL REVENUE FUND
DECEMBER 31, 2018

	Klondike	McKinley	North Red River	Peatland	Total
ASSETS					
Cash and Investments	\$ 23,507	\$ 23,911	\$ 79,927	\$ 57,451	\$ 184,796
TOTAL ASSETS	<u>\$ 23,507</u>	<u>\$ 23,911</u>	<u>\$ 79,927</u>	<u>\$ 57,451</u>	<u>\$ 184,796</u>
LIABILITIES					
Due to Other Funds	\$ 608	\$ 497	\$ 2,119	\$	\$ 3,224
TOTAL LIABILITIES	<u>608</u>	<u>497</u>	<u>2,119</u>	<u></u>	<u>3,224</u>
FUND BALANCES					
Restricted	<u>22,899</u>	<u>23,414</u>	<u>77,808</u>	<u>57,451</u>	<u>181,572</u>
TOTAL FUND BALANCES	<u>22,899</u>	<u>23,414</u>	<u>77,808</u>	<u>57,451</u>	<u>181,572</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 23,507</u>	<u>\$ 23,911</u>	<u>\$ 79,927</u>	<u>\$ 57,451</u>	<u>\$ 184,796</u>

KITTSOON COUNTY
SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2018

SHARED REVENUE

State

County Program Aid	\$	425,502
Aquatic ISP Aid		26,484
Payment in Lieu of Taxes		212,172
Highway Users Tax		4,104,116
Market Value Credit		115,042
PERA Rate Increase Aid		13,875
Police State Aid		43,594
Disparity Aid		4,457
Riparian Protection Aid		200,000
TOTAL SHARED REVENUE		5,145,242

GRANTS

State

Human Services Department		350,105
Public Safety Department		74,183
Corrections		9,144
Natural Resources Department		153,699
Pollution Control Agency		75,229
Veterans Affairs Department		7,500
Secretary of State		32,500
Water and Soil Resources Board		52,973
Total State Grants		755,333

Federal

U.S. Department of Agriculture		45,768
U.S. Department of Transportation		1,117,411
U.S. Department of Health and Human Services		441,633
U.S. Department of Homeland Security		174,184
Total Federal Grants		1,778,996

TOTAL STATE AND FEDERAL GRANTS		2,534,329
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TOTAL INTERGOVERNMENTAL REVENUE	\$	7,679,571
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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of County Commissioners
Kittson County
Hallock, Minnesota

We have audited, 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 the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kittson County, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, and have issued our report thereon dated January 6, 2020. Our report includes a reference to other auditors who audited the financial statements for North Kittson Rural Water System, as described in our report on Kittson County's financial statements.

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, except that we did not test for compliance in tax increment financing because the County does not have a TIF Authority.

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.

Purpose of the Report

This report is intended solely for the information and use of those charged with governance and management of Kittson County and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



BRADY, MARTZ & ASSOCIATES, P.C.
THIEF RIVER FALLS, MINNESOTA

January 6, 2020

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of County Commissioners
Kittson County
Hallock, Minnesota

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, 2018, 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 6, 2020. Our report includes a reference to other auditors who audited the financial statements for North Kittson Rural Water System, as described in our report on Kittson County's financial statements.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* 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 such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from 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 are required to be reported under *Government Auditing Standards*.

The County's Response to Findings

The County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the County's internal control 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 and compliance. Accordingly, this communication is not suitable for any other purpose.



**BRADY, MARTZ & ASSOCIATES, P.C.
THIEF RIVER FALLS, MINNESOTA**

January 6, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

To the Board of County Commissioners
Kittson County
Hallock, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Kittson County's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2018. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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 each of the County's major federal programs 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 audit 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 the 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 each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as items 2018-003 and 2018-004. Our opinion on each major federal program is not modified with respect to these matters.

Kittson County's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. Kittson County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of Kittson County, Minnesota, 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 the 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 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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-003 that we consider to be a significant deficiency.

Kittson County's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. Kittson County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of the 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.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.
THIEF RIVER FALLS, MINNESOTA**

January 6, 2020

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KITTSOON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Passed-Through Minnesota Department of Human Services:			
SNAP Cluster			
Supplemental Nutrition Assistance Program	10.561		\$ 45,768
Total SNAP Cluster			<u>45,768</u>
Total U.S. Department of Agriculture			<u>45,768</u>
<u>U.S. Department of Transportation</u>			
Passed-Through Minnesota Department of Transportation:			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	SP 35-070-008	106,266
Highway Planning and Construction	20.205	SP 35-622-009	522,502
Highway Planning and Construction	20.205	SP 35-622-008	488,643
Total Highway Planning and Construction Cluster			<u>1,117,411</u>
Total U.S. Department of Transportation			<u>1,117,411</u>
<u>U.S. Department of Homeland Security</u>			
Passed-Through Minnesota Department of Public Safety:			
Emergency Management Performance Grant	97.042	F-EMPG-2018-KittsCO	15,018
Homeland Security Grant Program	97.067	F-OPSG-2015-KITTSCO-2493	74,166
Homeland Security Grant Program	97.067	F-SHSP-2017-HSEM3KC-2589	85,000
Total CFDA 97.067			<u>159,166</u>
Total U.S. Department of Homeland Security			<u>174,184</u>
<u>U.S. Department of Health and Human Services</u>			
Passed-Through Minnesota Department of Human Services:			
Refugee Assistance	93.556	G1701MNFPS	1,376
Parental Support Outreach Program	93.590	G1702MNFPRG	1,113
Title XX	93.667	G1801MNSOSR	43,618
SELF Funds	93.674		2,207
Child Welfare Services Program	93.645	G1701MNCWSS	1,037
Children's Health Insurance Program	93.767	1805MN5R21	48
TANF Cluster			
Diversionsary Work Program	93.558	1801MNTANF	195
Temporary Assistance for Needy Families	93.558	1801MNTANF	11,925
MFIP Consolidated	93.558	1801MNTANF	29,110
Total TANF Cluster			<u>41,230</u>

See Notes To The Schedule Of Expenditures Of Federal Awards

KITTSON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS- CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Passed-Through Minnesota Department of Human Services (continued):			
Child Support Incentives	93.563	1804MNCES	71,114
Title IV-E Foster Care Maintenance	93.658	1801MNFOST	3,161
Title IV-E Income Maintenance	93.658	1801MNFOST	407
Title IV-E Social Services	93.658	1801MNFOST	1,204
Title IV-E Income Maintenance Admin Aid	93.658	1801MNFOST	1,107
Title IV-E Administration Training	93.658	1801MNFOST	7,537
Social Service Information System (SSIS)	93.658	1801MNFOST	1,574
Total CFDA Number 93.658			<u>14,990</u>
Medicaid Cluster			
MA LTSS Administration	93.778	1805MN5ADM	42,365
MA LCTS Administration	93.778	1805MN5ADM	4,879
MA Administration	93.778	1805MN5ADM	14,501
MA Incentive	93.778	1805MN5MAP	1,465
MA County-Wide Indirect	93.778	1805MN5ADM	19,970
MA Rule 25 Administration	93.778	1805MN5ADM	6,514
MA Administration Collaborative	93.778	1805MN5ADM	73,059
Total Medicaid Cluster			<u>162,753</u>
CCDF Cluster			
Basic Sliding Fee Child Care Admin	93.596		625
Investment Program Administration	93.596	G1801MNCCDF	286
Total CCDF Cluster			<u>911</u>
Total U.S. Department of Health and Human Services			<u>340,397</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,677,760</u>
Reconciliation of the Schedule of Expenditures of Federal Awards to the Schedule of Intergovernmental Revenue.			
Schedule of Expenditures of Federal Awards - Total Federal Awards			\$ 1,677,760
Medical Assistance			101,236
Schedule of Intergovernmental Revenue - Federal			<u>\$ 1,778,996</u>

See Notes To The Schedule Of Expenditures Of Federal Awards

KITTSOON COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule of expenditures of federal awards (the Schedule) are reported under generally accepted accounting principles (U.S. GAAP). Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 2 INDIRECT COST RATE

The County has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Kittson County under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the Kittson County, it is not intended to and does not present the financial position, changes in net position or cash flows of the Kittson County.

NOTE 4 PASS-THROUGH ENTITIES

Pass-through entities listed above without a pass-through number use the same CFDA numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

NOTE 5 SUBRECIPIENTS

During 2018, the County did not pass any federal money to subrecipients.

KITTSOON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2018

Section I-Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

yes no

Significant deficiency(ies) identified?

yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

yes no

Significant deficiency(ies) identified?

yes none reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

yes no

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

20.205 *Highway Planning and Construction Cluster:*
Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

yes no

KITTSOON COUNTY
SCHEDULE FINDINGS AND QUESTIONED COSTS - CONTINUED
DECEMBER 31, 2018

Section II-Financial Statement Findings

2018-001

Criteria

The County does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Condition

The County's personnel prepare periodic financial information for internal use that meets the needs of management and the county board. For the year ended December 31, 2018, the County's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the County does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by GAAP for external reporting. The County is aware of this significant deficiency, and obtains our assistance in the preparation of the County's annual financial statements.

Cause

The County does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect

The County's management is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and the completed statements prior to distribution to the end users.

Repeat Finding

Yes. Prior audit finding 2007-001

Recommendation

For entities of the County's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Views of Responsible Officials and Planned Corrective Actions

The County agrees with the recommendation and will review on an annual basis.

KITTSOON COUNTY
SCHEDULE FINDINGS AND QUESTIONED COSTS - CONTINUED
DECEMBER 31, 2018

2018-002

Criteria

Generally, a system of internal control contemplates separation of duties that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition

Lack of sufficient segregation of duties.

Cause

Size and budget constraints limiting the number of personnel within the accounting department.

Effect

The design of the internal control over financial reporting that could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Repeat Finding

Yes. Prior audit finding 1996-001

Recommendation

The areas should be reviewed periodically and consideration given to improving the segregation of duties. In order to mitigate risk, an individual from the County should review and approve all journal entries, review all bank reconciliations and bank statements, and credit card statements.

Views of Responsible Officials and Planned Corrective Actions

The County agrees with the recommendation and will review on an annual basis.

KITTSOON COUNTY
SCHEDULE FINDINGS AND QUESTIONED COSTS - CONTINUED
DECEMBER 31, 2018

Section III-Federal Award Findings and Questioned Costs

2018-003

Department of Transportation (Highway Planning and Construction, CFDA No. 20.205)

Criteria

Non-Federal entities other than States, including those operating Federal programs as subrecipients of States, must follow the procurement standards set out at 2 CFR sections 200.318 through 200.326. They must use their own documented procurement procedures, which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal statutes and the procurement requirements identified in 2 CFR part 200.

Condition

The County does not have written standards of conduct that cover conflicts of interest and govern the performance of its employees engaged in the selection, award, and administration of contracts (2 CFR section 200.318(c) and 48 CFR sections 52.203-13 and 52.303-16 in their current procurement policy.

Questioned Costs

Undeterminable

Context

It was noted after reviewing the County's Procurement Policy that a conflict of interest section had been omitted.

Cause

Oversight by Management.

Effect

The County may have a conflict of interest when entering into a contract.

Repeat Finding

First year for finding.

Recommendation

The County should review their policies and procedures for procurement.

Views of the Responsible Officials and Planned Corrective Actions

The County agrees with the recommendation and will correct immediately.

KITTSOON COUNTY
SCHEDULE FINDINGS AND QUESTIONED COSTS - CONTINUED
DECEMBER 31, 2018

2018-004

Department of Transportation (Highway Planning and Construction, CFDA No. 20.205)

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.

Cause

Complications during the course of the audit delayed the auditor's in the completion of the auditor report.

Effect

This is not expected to reoccur in the future.

Repeat Finding

Yes. Prior audit finding 2016-001

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.

Views of the Responsible Officials and Planned Corrective Actions

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.

KITTSON COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2018

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.*

KITTSON COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS - CONTINUED
DECEMBER 31, 2018

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.*

KITTSON COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS - CONTINUED
DECEMBER 31, 2018

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.*

KITTSOON COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS - CONTINUED
DECEMBER 31, 2018

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 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.*

KITTSON COUNTY
CORRECTIVE ACTION PLAN
DECEMBER 31, 2018



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

2018-001 FINDING

Contact Person – Eric Christensen, County Administrator

Corrective Action Plan – 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.

Completion Date – Ongoing

2018-002 FINDING

Contact Person – Eric Christensen, County Administrator

Corrective Action Plan – 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.

Completion Date – Ongoing

2018-003 FINDING

Contact Person – Eric Christensen, County Administrator

Corrective Action Plan – The County will establish written procedures for procurement. These procedures will be in conformity with Minnesota State Statutes, Federal Laws, and the Uniform Guidance Standards.

Completion Date – Immediately

2018-004 FINDING

Contact Person – Eric Christensen, County Administrator

Corrective Action Plan – The County will continue to work on completion of the Audit within nine months of the fiscal year end to allow for timely submission of the data collection form and reporting package.

Completion Date - Ongoing