

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

YEAR ENDED DECEMBER 31, 2013

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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## **INTRODUCTORY SECTION**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**ORGANIZATION SCHEDULE  
DECEMBER 31, 2013**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
<b>Commissioners</b>		
1 <sup>st</sup> District	Craig Spilde	January 2017
2 <sup>nd</sup> District	John Anderson	January 2017
3 <sup>rd</sup> District	Joe Bouvette, Chair	January 2015
4 <sup>th</sup> District	Leon Olson	January 2017
5 <sup>th</sup> District	Betty Younggren	January 2015
<b>Officers</b>		
Elected:		
Attorney	Roger Malm	January 2015
Recorder	Kristi Hultgren	January 2015
Sheriff	Kenny Hultgren	January 2015
Appointed:		
Administrator	Eric Christensen	Indefinite
Assessor	Marian Paulson	December 2016
Environmental Officer	Barb O'Hara	Indefinite
Highway Engineer	Kelly Bengtson	January 2015
Medical Examiner	Mary Ann Sens	Indefinite
Social Services Director	Kathleen Johnson	Indefinite
Veterans Service Officer	Bob Cameron	May 2014

**FINANCIAL SECTION**



**GOVERNMENTAL AUDIT SERVICES**

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

1541 Hwy. 59 South  
Thief River Falls, MN 56701  
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**INDEPENDENT AUDITOR'S REPORT**

Board of County Commissioners  
Kittson County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kittson County, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kittson County, Minnesota, as of December 31, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

As discussed in Notes I and II, Roseau County has implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which required a change in accounting principles and resulted in adjustments to beginning net position. Our opinion is not modified with respect to this matter.

## **Other Matters**

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

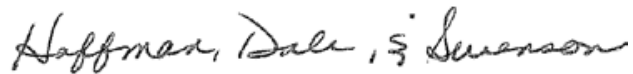
## **Accompanying Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kittson County's basic financial statements. The introductory section, the supplementary information, and the other schedules section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The supplementary information and the 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory and other schedules sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2014, on our consideration of Kittson County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Hoffman, Dale, & Swenson".

Hoffman, Dale, & Swenson, PLLC

September 18, 2014



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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS** (Unaudited)

The management of Kittson County offers readers of the County's Financial Statements this narrative overview and analysis of the financial activities of Kittson County for the fiscal year ended December 31, 2013. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the County's basic financial Statements that follow this section.

### **FINANCIAL HIGHLIGHTS**

The total net position of governmental activities is \$63,999,296, of which \$56,584,708 is the net investment in capital assets, \$3,075,022 is restricted for specific purposes, and \$4,339,566 is unrestricted. The total net position of governmental activities increased by \$1,478,239 for the year ended December 31, 2013. This is attributed primarily to highway construction projects financed by County State Aid Highway funding.

At the close of 2013, the County's governmental funds reported combined ending fund balances of \$6,486,826, a decrease of \$814,554 from the prior year. Of the total fund balance amount, \$817,428 is non-spendable, \$1,524,949 is legally or contractually restricted, \$2,439,636 is formally committed for specific purposes, \$1,191,718 is assigned for specific purposes, and \$513,095 is noted as unassigned fund balance. Maintaining an adequate fund balance is necessary to provide County services throughout the year.

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

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

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

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector businesses. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

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

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

## **Fund Financial Statements**

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

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

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

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

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

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

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

### **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 26 of this report.

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

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

Over time, net position serves as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$63,999,296 at the close of 2013. The largest portion of the County's net position (approximately 88 percent) reflects its investment in capital assets (i.e., land, construction in progress, infrastructure, buildings and improvements, and machinery and equipment), net of related debt used to acquire those assets. It should be noted that this amount is not available for future spending. Approximately five percent of the County's net position is restricted and seven percent of the County's net position is unrestricted. The unrestricted net position amount of \$4,339,566, as of December 31, 2013, may be used to meet the County's ongoing obligations to citizens.

The County's overall financial position increased from last year. Total assets increased by \$796,890 from the prior year primarily due to the increase in capital assets which resulted from the County's highway construction projects. Total liabilities decreased by \$681,349, from the prior year, mainly due to paying back a \$567,015 advance payment from the County State Aid Highway Allotment. This resulted in an increased net position of \$1,478,239 from the prior year.

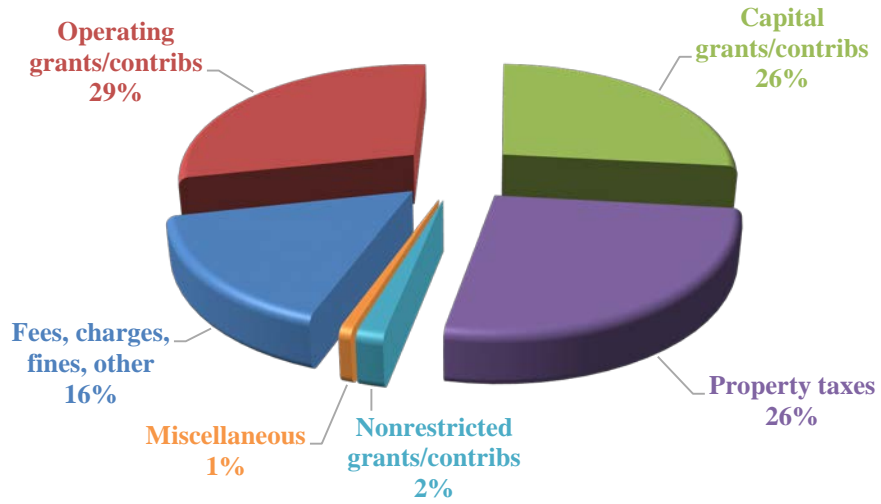
**NET POSITION**

	Primary Government	
	Governmental Activities	
	2013	2012 as restated
Current and other assets	\$ 8,540,543	\$ 10,099,280
Capital assets	56,584,708	54,229,081
<b>Total assets</b>	<b>\$ 65,125,251</b>	<b>\$ 64,328,361</b>
Other liabilities	\$ 460,610	\$ 1,159,907
Long-term liabilities outstanding	665,345	647,397
<b>Total liabilities</b>	<b>\$ 1,125,955</b>	<b>\$ 1,807,304</b>
Net position		
Net investment in capital assets	\$ 56,584,708	\$ 54,229,081
Restricted	3,075,022	1,456,758
Unrestricted	4,339,566	6,835,218
<b>Total net position</b>	<b>\$ 63,999,296</b>	<b>\$ 62,521,057</b>

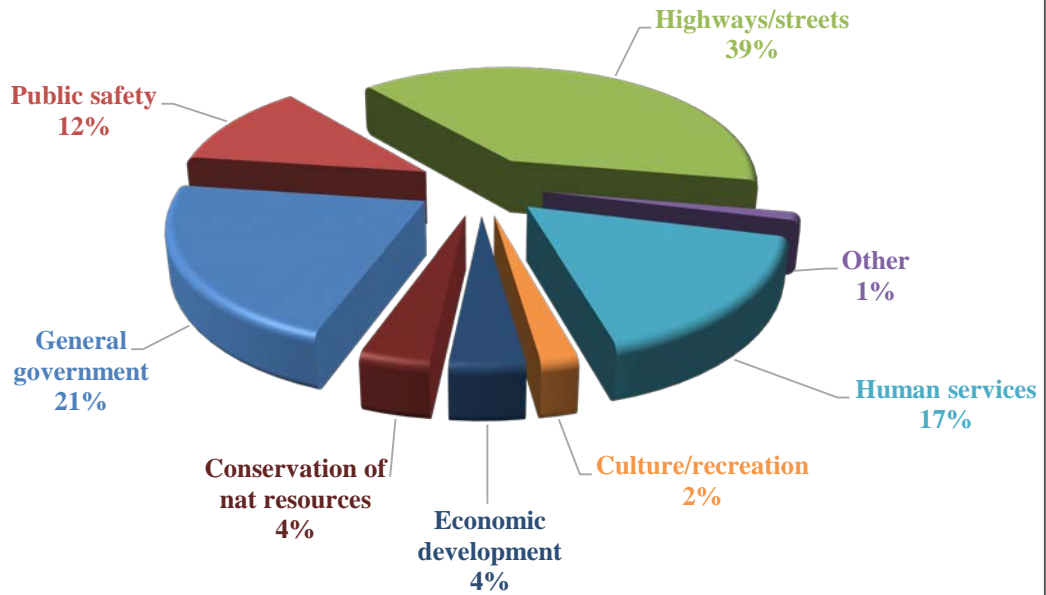
**CHANGES IN NET POSITION**

	Primary Government	
	Governmental Activities	
	2013	2012
Revenues		
Program Revenues		
Fees, charges, fines and other	\$ 1,892,569	\$ 1,926,538
Operating grants and contributions	3,414,876	3,225,381
Capital grants and contributions	3,097,939	2,595,128
General Revenues and Transfers		
Property taxes	3,125,909	3,016,297
Grants and contributions not restricted to specific programs	189,247	244,731
Payments in lieu of taxes	152,879	152,894
Insurance dividends	70,452	102,003
Investment earnings	(135,872)	103,814
Transfers		(8,894)
<b>Total revenues</b>	<b>\$ 11,807,999</b>	<b>\$ 11,357,892</b>
Expenses		
General government	\$ 2,230,228	\$ 2,362,117
Public safety	1,201,241	1,170,043
Highways and streets	4,025,161	4,383,748
Sanitation	73,239	88,480
Human services	1,736,433	1,812,465
Health	38,684	38,153
Culture and recreation	211,022	214,442
Conservation of natural resources	392,734	400,075
Economic development	421,018	81,167
<b>Total expenses</b>	<b>\$ 10,329,760</b>	<b>\$ 10,550,690</b>
Increase (decrease)	\$ 1,478,239	\$ 807,202
Net assets, January 1, as previously reported	-	60,883,064
Prior period adjustment	-	830,791
Net position, January 1, as restated	62,521,057	61,713,855
<b>Net position, December 31</b>	<b>\$ 63,999,296</b>	<b>\$ 62,521,057</b>

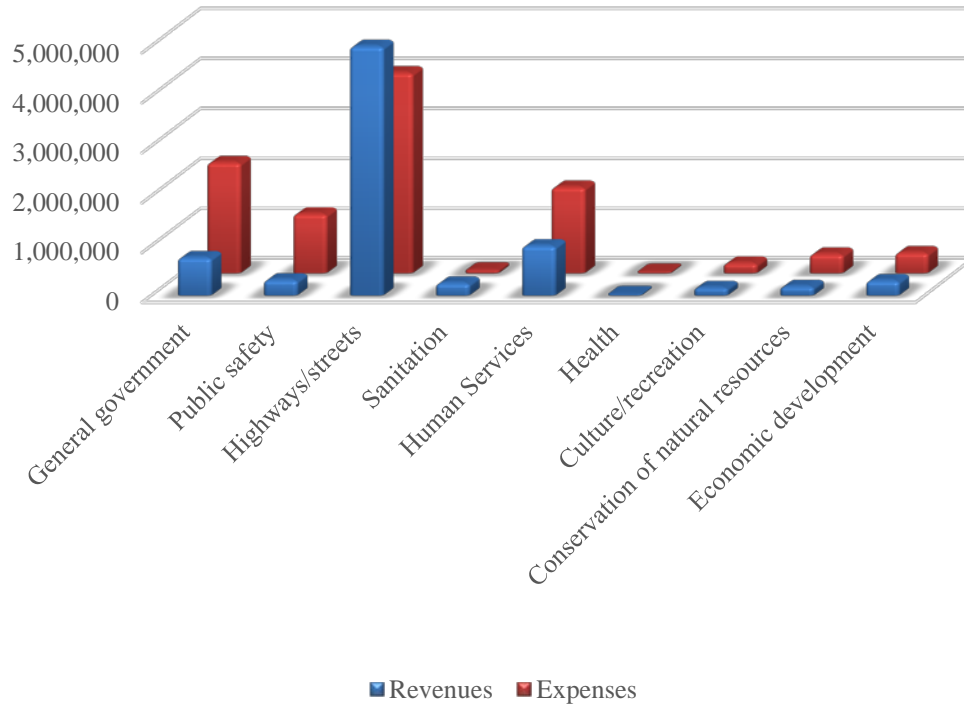
## Revenues by Source



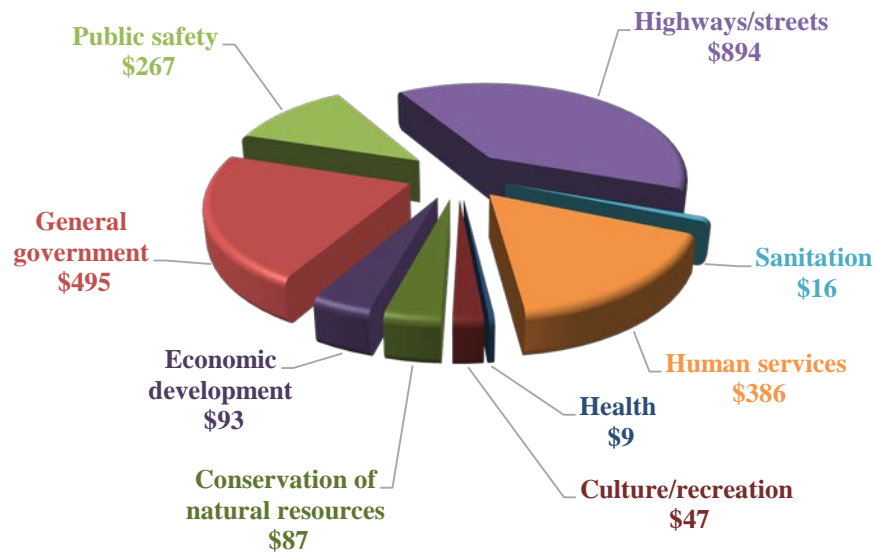
## Expenses by Function



## Program Revenues & Expenses



## Expenditures Per Capita 4,503 Population as of July 1, 2013



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

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

### **Governmental Funds**

At the end of 2013, the County's governmental funds reported combined ending fund balances of \$6,486,826. Of this amount, approximately 13 percent constitutes non-spendable fund balance, 23 percent constitutes legally or contractually restricted fund balance, 38 percent constitutes formally committed fund balance, 18 percent constitutes specifically assigned fund balance, and eight 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 \$4,623,310. The General Fund's non-spendable fund balance was \$551,784, restricted fund balance was \$821,681, committed fund balance was \$2,109,636, and unassigned fund balance was \$1,140,209. 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 2013. Unrestricted fund balance represents 81 percent of total General Fund expenditures, while total fund balance represents 116 percent of that same amount.

In 2013, the fund balance amount in the General Fund decreased by \$158,203 primarily due to the use of reserves to fund the 2013 budget.

The fund balance of the Road and Bridge Special Revenue Fund decreased by \$431,018 in 2013, due to budgeted revenue from various sources which was not realized in 2013.

The fund balance of the Social Services Special Revenue Fund decreased \$165,139 from the prior year due to the use of reserves to fund the 2013 budget.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

There were no amendments to the original budgeted revenues and expenditures as approved for 2013. Actual revenues were more than overall budgeted revenues by \$248,983, as a result of increased housing rehabilitation funding. Actual expenditures were more than overall budgeted expenditures by \$403,498 as a result of building capital repair projects which were not budgeted and an increase in Housing Rehabilitation projects undertaken.

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

#### **Capital Assets**

The County's investment in capital assets for its governmental activities as of December 31, 2013 amounted to \$56,584,708 (net of accumulated depreciation). The total increase in the County's investment in capital assets for the current fiscal year was approximately four percent. This was primarily due to the ongoing construction of highway projects and completed projects added to infrastructure.



	Governmental Activities	
	2013	2012
Land	\$ 190,821	\$ 190,821
Construction in progress	563,388	642,423
Infrastructure	53,202,990	51,167,947
Buildings and improvements	1,579,439	1,368,580
Machinery and equipment	1,048,070	859,310
<b>Total capital assets</b>	<b>\$ 56,584,708</b>	<b>\$ 54,229,081</b>

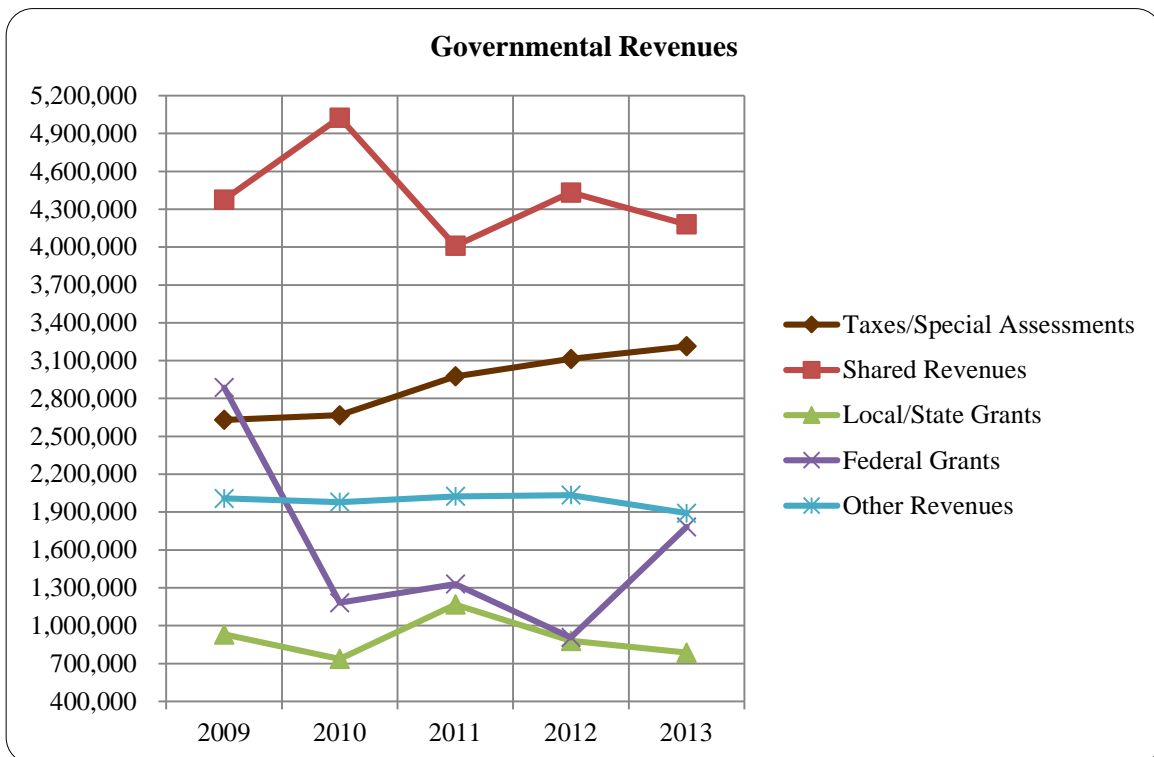
Additional information on the County’s capital assets can be found in the notes to the financial statements.

### Long-Term Debt

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

### ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

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



- Kittson County's unemployment rate was 4.2 percent as of December, 2013. This is lower than the statewide rate of 4.7 percent and the national average rate of 6.5 percent.
- Standard & Poor's Ratings Services assigned its "AA-" long-term rating to Kittson County's \$945,000 General Obligation Water Revenue Crossover Refunding Bonds, Series 2011A for the discretely presented component unit, North Kittson Rural Water System. Standard & Poor's has also affirmed its "AAA" enhanced program rating.
- Kittson County's population at July 1, 2013 was 4,503, a decrease of 49 since 2010. This ranks Kittson County 84<sup>th</sup> of 87 in the State of Minnesota.
- On December 6, 2013, Kittson County set its 2014 revenue and expenditure budgets.

### **REQUESTS FOR INFORMATION**

This annual financial report is designed to provide a general overview of Kittson County for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Kittson County Administrator, Kittson County Courthouse, 410 Fifth Street South, Suite 214, Hallock, MN 56728.

## **BASIC FINANCIAL STATEMENTS**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

***EXHIBIT 1***

**STATEMENT OF NET POSITION  
DECEMBER 31, 2013**

	<b>Primary Government Governmental Activities</b>	<b>Discretely Presented Component Unit</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 6,046,798	\$ 312,478
Investments	140,000	-
Taxes receivable - prior	66,221	-
Special assessments receivable - prior	395	-
Accounts receivable	35,012	51,982
Accrued interest receivable	29,900	-
Due from other governments	1,956,643	307
Inventories	265,574	-
Prepaid items	-	2,618
Restricted assets		
Cash and pooled investments	-	73,869
Investments	-	70,000
Special assessments receivable		
Current	-	4,490
Prior	-	13,859
Due from other governments	-	570,000
Accrued interest receivable	-	2,047
Pooled investments for asset replacement	-	892,226
Surcharge receivable for debt repayment	-	6,380
Special assessments receivable - noncurrent	-	689,875
Capital assets		
Non-depreciable	754,209	108,045
Depreciable - net of accumulated depreciation	55,830,499	10,116,501
<b>Total Assets</b>	<b>\$ 65,125,251</b>	<b>\$ 12,914,677</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 1  
(Continued)**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2013**

	<b>Primary Government Governmental Activities</b>	<b>Discretely Presented Component Unit</b>
<b><u>Liabilities</u></b>		
Accounts payable	\$ 244,604	\$ 16,902
Salaries payable	93,680	-
Accrued payroll taxes	-	4,985
Contracts payable	96,460	-
Due to other governments	25,866	1,599
Customer deposits	-	11,460
Payable from restricted assets		
General obligation bonds - current	-	140,000
Long-term liabilities		
Due within one year	153,604	11,558
Due in more than one year	511,741	909,355
	<b>\$ 1,125,955</b>	<b>\$ 1,095,859</b>
<b><u>Net Position</u></b>		
Net investment in capital assets	\$ 56,584,708	\$ 9,887,411
Amounts restricted for		
General government	318,342	-
Public safety	483,081	-
Highways and streets	1,740,281	-
Conservation of natural resources	533,318	-
Equipment replacement	-	892,226
Debt service	-	143,869
Unrestricted amounts	4,339,566	895,312
	<b>\$ 63,999,296</b>	<b>\$ 11,818,818</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Expenses</u>	<u>Fees, Charges, Fines and Other</u>	<u>Program Revenues Operating Grants and Contributions</u>
<b><u>Functions/Programs</u></b>			
<b>Primary Government</b>			
<b>Governmental activities</b>			
General government	\$ 2,230,228	\$ 759,652	\$ 7,500
Public safety	1,201,241	42,592	232,044
Highways and streets	4,025,161	662,029	1,659,224
Sanitation	73,239	57,530	196,950
Human services	1,736,433	291,719	713,368
Health	38,684	1,015	32,453
Culture and recreation	211,022	-	161,773
Conservation of natural resources	392,734	78,032	108,741
Economic development	421,018	-	302,823
<b>Total Primary Government</b>	<b><u>\$ 10,329,760</u></b>	<b><u>\$ 1,892,569</u></b>	<b><u>\$ 3,414,876</u></b>
<b>Component Unit</b>			
North Kittson Rural Water System	\$ 718,974	\$ 636,040	\$ -

**General revenues and other**

Property taxes  
Grants and contributions not restricted to specific programs  
Payments in lieu of taxes  
Insurance dividends  
Investment earnings

**Total general revenues and other**

**Change in net position**

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

Prior period adjustment

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

**Net position - December 31**

**EXHIBIT 2**

Net (Expense) Revenue and Changes in Net Position		
Capital Grants and Contributions	Primary Government Governmental Activities	Discretely Presented Component Unit
\$ -	\$ (1,463,076)	\$ -
44,665	(881,940)	-
3,053,274	1,349,366	-
-	181,241	-
-	(731,346)	-
-	(5,216)	-
-	(49,249)	-
-	(205,961)	-
-	(118,195)	-
<b>\$ 3,097,939</b>	<b>\$ (1,924,376)</b>	<b>\$ -</b>
<b>\$ 147,916</b>	<b>\$ -</b>	<b>\$ 64,982</b>
	\$ 3,125,909	\$ -
	189,247	307
	152,879	-
	70,452	-
	(135,872)	3,333
	<b>\$ 3,402,615</b>	<b>\$ 3,640</b>
	<b>\$ 1,478,239</b>	<b>\$ 68,622</b>
	<b>\$ 60,883,064</b>	<b>\$ 10,383,899</b>
	1,637,993	1,366,297
	<b>\$ 62,521,057</b>	<b>\$ 11,750,196</b>
	<b>\$ 63,999,296</b>	<b>\$ 11,818,818</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2013**

	<u>General Fund</u>	<u>Special Revenue Funds</u>		<u>Other Governmental Funds (Statement 1)</u>	<u>Total Governmental Funds</u>
		<u>Road and Bridge</u>	<u>Social Services</u>		
<b><u>Assets</u></b>					
<b>Assets</b>					
Cash and pooled investments	\$ 3,994,511	\$ 50,341	\$ 1,233,901	\$ 768,045	\$ 6,046,798
Investments	100,000	-	40,000	-	140,000
Taxes receivable - prior	46,950	6,916	11,743	612	66,221
Special assessments receivable - prior	-	-	-	395	395
Accounts receivable	2,374	15,251	17,387	-	35,012
Accrued interest receivable	29,786	-	114	-	29,900
Due from other funds	43	1,100	520	-	1,663
Due from other governments	218,055	1,661,593	73,390	3,605	1,956,643
Inventories	-	265,574	-	-	265,574
Advances to other funds	551,784	-	-	-	551,784
<b>Total Assets</b>	<b>\$ 4,943,503</b>	<b>\$ 2,000,775</b>	<b>\$ 1,377,055</b>	<b>\$ 772,657</b>	<b>\$ 9,093,990</b>
<b><u>Liabilities, Deferred Inflows and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 124,494	\$ 37,265	\$ 81,916	\$ 929	\$ 244,604
Salaries payable	49,606	28,743	15,331	-	93,680
Contracts payable	96,460	-	-	-	96,460
Due to other funds	520	-	43	1,100	1,663
Due to other governments	19,740	2,756	640	2,730	25,866
Advances from other funds	-	450,000	-	101,784	551,784
<b>Total Liabilities</b>	<b>\$ 290,820</b>	<b>\$ 518,764</b>	<b>\$ 97,930</b>	<b>\$ 106,543</b>	<b>\$ 1,014,057</b>
<b>Deferred Inflows</b>					
Taxes	\$ 29,373	\$ 4,534	\$ 7,433	\$ 566	\$ 41,906
Special assessments	-	-	-	128	128
County State Aid Highway Allotment	-	1,551,073	-	-	1,551,073
<b>Total Deferred Inflows</b>	<b>\$ 29,373</b>	<b>\$ 1,555,607</b>	<b>\$ 7,433</b>	<b>\$ 694</b>	<b>\$ 1,593,107</b>



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2013**

	General Fund	Special Revenue Funds		Other Governmental Funds (Statement 1)	Total Governmental Funds
		Road and Bridge	Social Services		
<b>Fund Balances</b>					
Non-spendable					
Advances to other funds	\$ 551,784	\$ -	\$ -	\$ -	\$ 551,784
Inventories	-	265,644	-	-	265,644
Restricted for					
Conservation of natural resources	-	-	-	514,060	514,060
Corrections supervision	5,675	-	-	-	5,675
County State Aid Highway Allotment	-	78,888	-	-	78,888
DWI assessment	4,895	-	-	-	4,895
Enhanced 911	454,917	-	-	-	454,917
Handgun permits	9,611	-	-	-	9,611
Help America Vote Act	127,064	-	-	-	127,064
Law library	947	-	-	-	947
Missing heirs	1,067	-	-	-	1,067
Pit restoration	-	110,320	-	-	110,320
Probation	1,640	-	-	-	1,640
Recorder's equipment	93,185	-	-	-	93,185
Sheriff's contingent fund	1,113	-	-	-	1,113
Technology	96,079	-	-	-	96,079
Vehicle seizures	3,235	-	-	-	3,235
Victim assistance	2,995	-	-	-	2,995
Water planning	19,258	-	-	-	19,258
Committed to					
Buildings	749,520	-	200,000	-	949,520
Capital purchases	150,000	-	30,000	-	180,000
Data processing	280,490	-	100,000	-	380,490
Enhanced 911 road signs	179,049	-	-	-	179,049
Geographic Information System	143,407	-	-	-	143,407
Insurance	600,000	-	-	-	600,000
Local Emergency Planning Commission	7,170	-	-	-	7,170
Assigned to					
Insurance	-	-	-	394	394
Social services	-	-	941,692	-	941,692
Unorganized townships	-	-	-	249,632	249,632
Unassigned	1,140,209	(528,448)	-	(98,666)	513,095
<b>Total Fund Balances</b>	<b>\$ 4,623,310</b>	<b>\$ (73,596)</b>	<b>\$ 1,271,692</b>	<b>\$ 665,420</b>	<b>\$ 6,486,826</b>
<b>Total Liabilities, Deferred Inflows and Fund Balances</b>	<b>\$ 4,943,503</b>	<b>\$ 2,000,775</b>	<b>\$ 1,377,055</b>	<b>\$ 772,657</b>	<b>\$ 9,093,990</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

***EXHIBIT 4***

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2013**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>6,486,826</b>
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		56,584,708
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		1,593,107
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Compensated absences payable	\$ (396,178)	
Other post-employment benefits	(269,167)	(665,345)
<hr/>	<hr/>	<hr/>
<b>Net position of governmental activities (Exhibit 1)</b>	<b>\$</b>	<b><u>63,999,296</u></b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 5**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General Fund	Special Revenue Funds		Other Government Funds (Statement 2)	Total Governmental Funds
		Road and Bridge	Social Services		
<b>Revenues</b>					
Taxes	\$ 2,249,768	\$ 323,051	\$ 541,559	\$ 34,129	\$ 3,148,507
Special assessments	-	-	-	64,893	64,893
Licenses and permits	8,235	-	-	-	8,235
Intergovernmental	1,351,500	4,775,870	735,227	38,882	6,901,479
Charges for services	228,840	592,144	124,009	4,336	949,329
Fines and forfeitures	3,730	-	-	-	3,730
Investment earnings	(136,125)	-	253	-	(135,872)
Land and timber sales	-	-	-	4,613	4,613
Miscellaneous	129,597	45,763	167,710	564,901	907,971
<b>Total Revenues</b>	<b>\$ 3,835,545</b>	<b>\$ 5,736,828</b>	<b>\$ 1,568,758</b>	<b>\$ 711,754</b>	<b>\$ 11,852,885</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 1,588,642	\$ -	\$ -	\$ 566,689	\$ 2,155,331
Public safety	1,141,887	-	-	6,007	1,147,894
Highways and streets	-	5,811,165	-	55,542	5,866,707
Sanitation	72,225	-	-	-	72,225
Human services	-	-	1,733,897	-	1,733,897
Health	38,684	-	-	-	38,684
Culture and recreation	211,022	-	-	-	211,022
Conservation of natural resources	245,084	-	-	146,991	392,075
Economic development	421,018	-	-	-	421,018
<b>Total Current</b>	<b>\$ 3,718,562</b>	<b>\$ 5,811,165</b>	<b>\$ 1,733,897</b>	<b>\$ 775,229</b>	<b>\$ 12,038,853</b>
<b>Debt Service</b>					
Interest	\$ -	\$ -	\$ -	\$ 407	\$ 407
<b>Capital Outlay</b>					
General government	\$ 156,765	\$ -	\$ -	\$ -	\$ 156,765
Public safety	114,733	-	-	-	114,733
Highways and streets	-	266,382	-	-	266,382
<b>Total Capital Outlay</b>	<b>\$ 271,498</b>	<b>\$ 266,382</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 537,880</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

***EXHIBIT 5  
(Continued)***

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General Fund	Special Revenue Funds		Other Government Funds (Statement 2)	Total Governmental Funds
		Road and Bridge	Social Services		
<b>Total Expenditures</b>	\$ 3,990,060	\$ 6,077,547	\$ 1,733,897	\$ 775,636	\$ 12,577,140
<b>Excess of Revenues Over (Under) Expenditures</b>	\$ (154,515)	\$ (340,719)	\$ (165,139)	\$ (63,882)	\$ (724,255)
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ -	\$ -	\$ -	\$ 3,688	\$ 3,688
Transfers out	(3,688)	-	-	-	(3,688)
<b>Total Other Financing Sources (Uses)</b>	\$ (3,688)	\$ -	\$ -	\$ 3,688	\$ -
<b>Net Change in Fund Balance</b>	\$ (158,203)	\$ (340,719)	\$ (165,139)	\$ (60,194)	\$ (724,255)
<b>Fund Balance - January 1</b>	4,781,513	357,422	1,436,831	725,614	7,301,380
<b>Increase (decrease) in inventories</b>	-	(90,299)	-	-	(90,299)
<b>Fund Balance - December 31</b>	\$ 4,623,310	\$ (73,596)	\$ 1,271,692	\$ 665,420	\$ 6,486,826

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ (724,255)**

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

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

Expenditures for general capital assets and infrastructure	\$	3,898,422	
Current year depreciation		(1,673,608)	
Net book value of disposed assets		130,813	2,355,627

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

Change in deferred inflows			(44,886)
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Some expenses reported in the Statement of Activities do not require the  
use of current financial resources and, therefore, are not reported as  
expenditures in governmental funds.

Change in			
Compensated absences payable	\$	2,377	
Other post employment benefits		(20,325)	
Inventories		(90,299)	(108,247)

**Change in net position of governmental activities (Exhibit 2) \$ 1,478,239**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 7**

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2013**

	<b>Mar-Kit Landfill Investment Trust</b>	<b>Agency (Statement 3)</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ -	\$ 3,253,441
Investments	800,000	-
Accrued interest receivable	1,454	-
	<b>\$ 801,454</b>	<b>\$ 3,253,441</b>
<b><u>Liabilities</u></b>		
Accounts payable	\$ -	\$ 163,592
Accrued interest payable	1,454	-
Due to other governments	-	3,089,849
	<b>\$ 1,454</b>	<b>\$ 3,253,441</b>
<b><u>Net Position</u></b>		
Amounts held in trust for pool participants	<b>\$ 800,000</b>	

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 8**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
MAR-KIT LANDFILL INVESTMENT TRUST FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<b><u>Additions</u></b>	
Investment earnings	\$ 3,267
<b><u>Deductions</u></b>	
Distributions to participants	<u>3,267</u>
<b>Change in net position</b>	<b>\$ -</b>
<b>Net Position--January 1</b>	<b><u>800,000</u></b>
<b>Net Position--December 31</b>	<b><u><u>\$ 800,000</u></u></b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

I. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

Discretely Presented Component Unit

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

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

Joint Ventures

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



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

Additionally, the County reports the following fund types:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Administrator for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2013, based on market prices. Pursuant to Minnesota Statute, § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2013 were \$(135,124), as a result of a loss in market value of the County's investments.

2. Receivables and Payables

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

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

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

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

3. Inventories

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

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

4. Restricted Assets

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

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

5. Capital Assets

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

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

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

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

6. 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 will not be recognized as an outflow of resources (expenditure) until then. Currently, the County has no items that qualify for reporting in this category.

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 represents an acquisition of net position by the County that is applicable to a future reporting period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County's deferred inflows of resources arise only under a modified basis of accounting that qualifies for reporting in this category. Accordingly, deferred inflows of resources are reported only in the governmental funds balance sheet, and recognized as an inflow of resources in the period that the amounts become available.

7. Employee Benefits

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

7. Employee Benefits (Continued)

eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

8. Net Position and Fund Balance

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

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

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

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

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

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

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

8. Net Position and Fund Balance (Continued)

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.

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

9. Use of Estimates

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

10. Account Balance Reclassifications

Several account balances were reclassified for the year ended December 31, 2012, as previously reported. These reclassifications, due to the implementation of GASB Statement 65, were required in order to be consistent with the current year's presentation, and must be considered when comparing the financial statements of this report with those of prior reports.

11. Comparative Data

Comparative data has not been provided due to the implementation of GASB 65, however, comparative information may be provided in future years when prior year information is available.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**II. Change in Accounting Principles**

Effective January 1, 2013 the County implemented GASB Statement 65, which required a change in accounting principles and resulted in adjustments to beginning net position. The following table outlines the changes in net position as reported on the County's financial statements:

	<u>Primary Government Governmental Activities</u>	<u>Discretely Presented Component Unit</u>
Net position, December 31, 2012, as previously reported	\$ 60,883,064	\$ 10,383,899
Prior period adjustments		
Taxes	40,382	-
Special assessments		774,297
Due from other governments	-	592,000
County State Aid Highway Allotment	1,597,611	-
Net position, January 1, 2013, as restated	<u>\$ 62,521,057</u>	<u>\$ 11,750,196</u>

**III. Stewardship, Compliance, and Accountability**

**A. Individual Fund Deficits of Equity Accounts**

**Road and Bridge Special Revenue Fund**

At December 31, 2013, the Road and Bridge Special Revenue Fund had a deficit unassigned fund balance of \$(528,448), and a deficit total fund balance of \$(73,596). This deficit will be eliminated with future levies.

**Ditch Special Revenue Fund**

One of the 36 active ditch systems incurred expenditures in excess of revenues and available resources. This deficit will be eliminated with future special assessment levies against benefited properties. The following shows the restricted fund balances as of December 31, 2013:

Account balances	\$ 517,248
Account deficit	<u>(3,188)</u>
Fund Balances	<u>\$ 514,060</u>

**Forfeited Tax Sale Special Revenue Fund**

At December 31, 2013, the Forfeited Tax Sale Special Revenue Fund had a deficit unassigned fund balance of \$(98,666). This deficit will be eliminated with future forfeited land proceeds.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Stewardship, Compliance, and Accountability (Continued)

B. Land Management

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

IV. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliations of the County's total deposits and investments to the basic financial statements, as of December 31, 2013, are reported as follows:

	Primary Government	Discretely Presented Component Unit
Government-wide statement of net position		
Cash and pooled investments	\$ 6,046,798	\$ 312,478
Investments	140,000	-
Restricted		
Cash and pooled investments	-	73,869
Investments	-	70,000
Pooled investments for asset replacement	-	892,226
Statement of fiduciary net position		
Cash and pooled investments	3,253,441	-
Investments	800,000	-
Total cash and investments	\$ 10,240,239	\$ 1,348,573
Deposits	\$ 2,712,644	\$ 1,348,573
Cash on hand	1,800	-
Investments	7,525,795	-
Total deposits, cash on hand, and investments	\$ 10,240,239	\$ 1,348,573



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2013, the County's deposits were not exposed to custodial credit risk. As of December 31, 2013, the discretely presented component unit's deposits were not exposed to custodial credit risk.

Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as high risk by Minnesota Statute, § 118A.04, subdivision 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments (Continued)

- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

At December 31, 2013, the County had the following investments and maturities:

	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>5+ Years</u>
Federal Home Loan Bank	\$ 632,854	\$ -	\$ -	\$ 632,854
Federal Home Loan Mortgage Corporation	3,119,103	-	-	3,119,103
Negotiable Certificates of Deposit	3,407,680	1,950,646	1,457,034	-
Money Market	273,971	273,971	-	-
Tennessee Valley Authority Power Bonds	92,187	-	92,187	-
Total Investments	<u>\$ 7,525,795</u>	<u>\$ 2,224,617</u>	<u>\$ 1,549,221</u>	<u>\$ 3,751,957</u>
	100%	30%	20%	50%

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Credit Risk

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

The County's exposure to credit risk as of December 31, 2013, is as follows:

	Moody's Rating	Fair Value
Federal Home Loan Bank	AA	\$ 632,854
Federal Home Loan Mortgage Corporation	AA	385,972
Federal Home Loan Mortgage Corporation	AAA	2,733,131
Negotiable Certificates of Deposit	N/A	3,407,680
Money Market	N/A	273,971
Tennessee Valley Authority Power Bonds	N/R	92,187
		\$ 7,525,795

N/R – not rated

N/A – not applicable

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on custodial credit risk. Some brokers have excess SIPC coverage which may mitigate all or part of custodial credit risk. At December 31, 2013, the following investments may be subject to custodial credit risk:

Federal Home Loan Bank	\$ 632,854
Federal Home Loan Mortgage Corporation	3,119,103
Money Market	273,971
	\$ 4,025,928

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer, excluding U.S. guaranteed investments, investment pools, and mutual funds. The County's negotiable certificates of deposit are with 29 separate financial institutions and are not exposed to concentration of credit risk.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Concentration of Credit Risk (Continued)

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

<u>Issuer</u>	<u>Reported Amount</u>	
Federal Home Loan Bank	\$ 632,854	8%
Federal Home Loan Mortgage Corporation	3,119,103	41%

2. Receivables

Receivables as of December 31, 2013, for the County's governmental activities, including any applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>
Taxes	\$ 66,221
Special assessments	395
Accounts	35,012
Accrued interest	29,900
Due from other governments	1,956,643
<b>Total</b>	<b>\$ 2,088,171</b>

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

Receivables as of December 31, 2013, for the discretely presented component unit, including any applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Accounts	\$ 51,982	\$ -
Due from other governments	307	-
Restricted		
Accrued interest - temporary	2,047	-
Special assessments	708,224	689,875
Due from other governments	570,000	570,000
Surcharge for debt repayment	6,380	-
<b>Total</b>	<b>\$ 1,338,940</b>	<b>\$ 1,259,875</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the primary government for the year ended December 31, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 190,821	\$ -	\$ -	\$ 190,821
Construction in progress	642,423	184,548	263,583	563,388
<b>Total capital assets not depreciated</b>	<b>\$ 833,244</b>	<b>\$ 184,548</b>	<b>\$ 263,583</b>	<b>\$ 754,209</b>
Capital assets being depreciated				
Infrastructure	\$ 69,237,768	\$ 3,381,437	\$ -	\$ 72,619,205
Buildings and improvements	3,298,991	308,710	82,208	3,525,493
Machinery and equipment	4,407,470	287,310	362,521	4,332,259
<b>Total capital assets being depreciated</b>	<b>\$ 76,944,229</b>	<b>\$ 3,977,457</b>	<b>\$ 444,729</b>	<b>\$ 80,476,957</b>
Less: accumulated depreciation for				
Infrastructure	\$ 18,069,821	\$ 1,346,394	\$ -	\$ 19,416,215
Buildings and improvements	1,930,411	75,658	60,015	1,946,054
Machinery and equipment	3,548,160	251,556	515,527	3,284,189
<b>Total accumulated depreciation</b>	<b>\$ 23,548,392</b>	<b>\$ 1,673,608</b>	<b>\$ 575,542</b>	<b>\$ 24,646,458</b>
<b>Total capital assets, depreciated, net</b>	<b>\$ 53,395,837</b>	<b>\$ 2,303,849</b>	<b>\$ (130,813)</b>	<b>\$ 55,830,499</b>
<b>Primary Government Capital Assets, Net</b>	<b>\$ 54,229,081</b>	<b>\$ 2,488,397</b>	<b>\$ 132,770</b>	<b>\$ 56,584,708</b>

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

General government	\$ 75,884
Public safety	44,887
Highways and streets, including depreciation of infrastructure assets	1,539,617
Sanitation	761
Human services	12,459
<b>Total Depreciation Expense</b>	<b>\$ 1,673,608</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Capital asset activity for the discretely presented component unit for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 108,045	\$ -	\$ -	\$ 108,045
Capital assets being depreciated				
Distribution system	\$ 10,023,142	\$ -	\$ -	\$ 10,023,142
Buildings and pumps	4,246,074	784,343	902,703	4,127,714
Machinery and equipment	226,150	-	11,374	214,776
Tower reconditioning	304,690	-	-	304,690
Total capital assets being depreciated	\$ 14,800,056	\$ 784,343	\$ 914,077	\$ 14,670,322
Less: accumulated depreciation for				
Distribution system	\$ 2,765,010	\$ 116,371	\$ -	\$ 2,881,381
Buildings and pumps	1,743,136	109,930	415,052	1,438,014
Machinery and equipment	135,063	15,559	11,374	139,248
Tower reconditioning	79,944	15,234	-	95,178
Total accumulated depreciation	\$ 4,723,153	\$ 257,094	\$ 426,426	\$ 4,553,821
Total capital assets, depreciated, net	\$ 10,076,903	\$ 527,249	\$ 487,651	\$ 10,116,501
Component Unit				
Capital Assets, Net	\$ 10,184,948	\$ 527,249	\$ 487,651	\$ 10,224,546

\$257,094 of depreciation expense was charged to the functions of the Rural Water System.

Construction Contracts

The County has no active construction contracts as of December 31, 2013.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2013, is as follows:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
General Fund	Social Services Special Revenue Fund	\$ 43	Charges for services
Road and Bridge Special Revenue Fund	Other Governmental	1,100	Charges for services
Social Services Special Revenue Fund	General Fund	<u>520</u>	Charges for services
Total Due To/From Other Funds		<u>\$ 1,663</u>	

Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
General Fund	Road and Bridge Special Revenue Fund	\$ 450,000	Cash flows
General Fund	Other Governmental	<u>101,784</u>	Cash flows
Total Advances From/To Other Funds		<u>\$ 551,784</u>	

These advances will be paid back as funds become available.

Interfund Transfers

Interfund transfers for the year ended December 31, 2013, consisted of the following operating transfer:

Transfer to Other Governmental from General Fund	<u>\$ 3,688</u>	Operations
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C. Liabilities

Compensated Absences

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Detailed Notes on All Funds

C. Liabilities

Compensated Absences (Continued)

Unused compensatory time, accumulated vacation and vested sick leave are paid to employees upon termination. Unvested sick leave, approximately \$356,298 at December 31, 2013, is available to employees in the event of illness-related absences and is not paid to them at termination.

Changes in Long-Term Liabilities

Long-term liability for activity for the governmental activities for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Net OPEB Payable	\$ 248,842	\$ 28,267	\$ 7,942	\$ 269,167	\$ -
Compensated Absences	398,555	265,264	267,641	396,178	153,604
Long-Term Liabilities	<u>\$ 647,397</u>	<u>\$ 293,531</u>	<u>\$ 275,583</u>	<u>\$ 665,345</u>	<u>\$ 153,604</u>

Long-Term Debt – Discretely Presented Component Unit

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

\$945,000 General Obligation Water Revenue Crossover Refunding Bonds, Series 2011A – dated August 18, 2011 due in installments of \$85,000 to \$105,000 through January 1, 2023, with a net interest rate of 2.666 percent. This debt is to refund the General Obligation Rural Water System Revenue Refunding Bonds of 2004 on the January 1, 2013 crossover date. The Water System reduced its total debt service payments by \$50,013 and realized an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$42,195. The new bonds were issued with a discount of \$5,658 and net issue costs of \$14,700. This debt is reported net of unamortized bond discount of \$4,630. \$ 855,370

\$425,000 General Obligation Refunding Bonds of 2009 – dated July 1, 2009 due in installments of \$55,000 to \$65,000 through 2016, with net interest rate of 2.666 percent. This debt is to refund general obligation refunding bonds dated September 1, 1998 which were scheduled to mature January 1, 2017. The new bonds were issued with a discount of \$7,841 and net issue costs of \$6,230. As a result of the advanced refunding, the Water System realized an economic gain of \$24,268 with a present value of \$25,986. This debt is reported net of unamortized bond discount of \$3,360. 171,640

Total Payable from North Kittson Rural Water System Component Unit \$ 1,027,010



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Detailed Notes on All Funds

C. Liabilities

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

Debt Service Requirements

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

Year Ending December 31	General Obligation Water System Revenue Crossover Refunding Bonds, Series 2011A		General Obligation Refunding Bonds of 2009		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 85,000	\$ 22,257	\$ 55,000	\$ 5,210	\$ 140,000	\$ 27,467
2015	90,000	20,557	55,000	3,780	145,000	24,337
2016	90,000	18,533	65,000	2,047	155,000	20,580
2017	95,000	16,507	-	-	95,000	16,507
2018	95,000	14,134	-	-	95,000	14,134
2019-2022	405,000	30,478	-	-	405,000	30,478
	<u>\$ 860,000</u>	<u>\$ 122,466</u>	<u>\$ 175,000</u>	<u>\$ 11,037</u>	<u>\$ 1,035,000</u>	<u>\$ 133,503</u>
Less: Bond discount	(4,630)	-	(3,360)	-	(7,990)	-
Total	<u>\$ 855,370</u>	<u>\$ 122,466</u>	<u>\$ 171,640</u>	<u>\$ 11,037</u>	<u>\$ 1,027,010</u>	<u>\$ 133,503</u>

Changes in Long-Term Liabilities

Long-term liability activity for the discretely presented component unit for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Refunding Bonds	\$ 1,115,000	\$ -	\$ 940,000	\$ 175,000	\$ 55,000
G.O. Water Revenue Crossover Refunding Bonds, Series 2011A	945,000	-	85,000	860,000	85,000
Less: Bond discounts	(12,292)	-	(4,302)	(7,990)	-
Compensated Absences	29,268	25,797	21,162	33,903	11,558
Long-Term Liabilities	<u>\$ 2,076,976</u>	<u>\$ 25,797</u>	<u>\$ 1,041,860</u>	<u>\$ 1,060,913</u>	<u>\$ 151,558</u>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits

Defined Benefit Plans

Plan Description

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

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

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

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

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

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

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits

Defined Benefit Plans

Plan Description (Continued)

Internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2013. Public Employees Police and Fire Fund members were required to contribute 9.60 percent of their annual covered salary in 2013. The contribution rate in the Public Employees Police and Fire Fund increased in 2014 to 10.20 percent. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary in 2013.

The County is required to contribute the following percentages of annual covered payroll in 2013 and 2014:

	2013	2014
Public Employees Retirement Fund		
Basic Plan Members	11.78%	11.78%
Coordinated Plan Members	7.25%	7.25%
Public Employees Police and Fire Fund	14.40%	15.30%
Public Employees Correctional Fund	8.75%	8.75%

The County's contributions for the years ending December 31, 2013, 2012, and 2011, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2013	\$ 165,589	\$ 59,528	\$ 22,914
2012	\$ 147,215	\$ 54,981	\$ 12,006
2011	\$ 142,699	\$ 57,249	\$ 19,826

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

The North Kittson Rural Water System's contributions for the years ending December 31, 2013, 2012, and 2011, were \$10,244, \$10,093, and \$8,806, respectively, equal to the contractually required contributions for each year as set by state statute.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits (Continued)

Defined Contribution Plan

Six employees of Kittson County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA in accordance with Minnesota Statute, Chapter 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statute, § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer 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 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2013, were:

	Employee	Employer
Contribution amount	\$ 7,097	\$ 7,097
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

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.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits (OPEB) (Continued)

Funding Policy

The contribution requirements of the plan and the County are established and may be amended by the Kittson County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This post-employment benefit is funded on a pay-as-you-go basis usually paying retiree benefits out of the General Fund. For 2013, there were approximately 66 participants in the plan, including two retirees.

Annual OPEB Cost and Net OPEB Obligation

The County's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (ARC). The County has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the retiree health plan.

Annual Required Contribution	\$	86,522
Interest on net OPEB obligation		2,812
Adjustments to Annual Required Contribution		<u>(61,067)</u>
Annual OPEB cost (credit)	\$	28,267
Contributions made		<u>(7,942)</u>
Increase in net OPEB obligation	\$	20,325
Net OPEB Obligation - January 1, 2013		<u>248,842</u>
Net OPEB Obligation - December 31, 2013	\$	<u><u>269,167</u></u>

The County's annual OPEB credit for December 31, 2013, was \$28,267. Contributions to the plan were \$7,942 and the net OPEB obligation for 2013 was \$269,167. For the required three-year trend information, refer to the Required Supplementary Information beginning on page 65 of this report.

Fund Status and Funding Progress

As of January 1, 2013, the most recent actuarial valuation date, the plan was zero percent funded. There was no actuarial liability for benefits in 2013 and the actuarial value of assets was zero. The covered payroll (annual payroll of active employees covered by the plan) was \$2,991,975.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits (OPEB)

Fund Status and Funding Progress (Continued)

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

Methods and Assumptions

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

The following simplifying assumptions were made:

*Retirement age for active employees* – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62 and law enforcement personnel were assumed to retire at age 55, or at the first subsequent year in which the member would qualify for benefits.

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

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

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

*Healthcare cost trend rate* – The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare and Medicaid Services. A rate of 3.8 percent initially, increased to a rate of 6.7 percent after six years, was used.

*Health insurance premiums* – 2013 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits paid.

*Inflation rate* – The actuarial assumptions include a 1.13 percent investment rate of return (net of investment expense), which is Kittson County's implicit rate of return on the General Fund.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits (OPEB)

Methods and Assumptions (Continued)

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

Based on the historical and expected returns of the County’s short-term investment portfolio, a discount rate of 1.13 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2013, was twenty-four years.

VI. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT) to cover workers’ compensation and property and casualty liabilities. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

The Worker’s Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers’ Compensation Reinsurance Association with coverage at \$470,000 per claim in 2013 and \$480,000 per claim in 2014. 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

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

B. Risk Management (Continued)

to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

C. Joint Ventures

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

The HSEM Region 3 Emergency Managers Joint Powers Board was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minnesota Statutes, § 471.59 and Minnesota Statutes, Chapter 12. Members include Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau counties. The purpose of the HSEM Region 3 Emergency Managers Joint Powers Board is to engage in planning, training, and/or the purchase of equipment in order to better respond to emergencies and natural and other disasters within HSEM Region 3; specifically within the jurisdictional boundaries of the member counties.

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

The HSEM Region 3 Emergency Managers Joint Powers Board has no long-term debt. Financing will be provided by a Homeland Security Grant Program and other grant programs and awards. Complete financial information can be obtained from the Clay County Sheriff's Office, 915 9<sup>th</sup> Avenue North, Moorhead, Minnesota 56560.

Karlstad Mobile Relay Station

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

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

The Karlstad Mobile Relay Station has no long-term debt. Financing is provided by contributions from each member county representing an equal share of annual expense. Kittson County did not contribute to the Karlstad Mobile Relay Station for the year ended December 31, 2013. Complete financial information can be obtained from the Kittson County Administrator's Office, P.O. Box 848, Hallock, Minnesota 56728.



**KITTSON COUNTY  
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Mar-Kit Landfill

The Mar-Kit Landfill was established in 1991 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Kittson and Marshall Counties. The purpose of the Landfill is to allow for the purchase, lease, development, operation, and/or management of a sanitary landfill and/or processing facility to provide for the disposition of solid waste materials. The facility is located in Hallock, Minnesota, with administrative duties performed by the Kittson County Administrator's Office.

Control of the Landfill is vested in the Mar-Kit Landfill Joint Powers Board, which is composed of three county commissioners from each county. Serving as non-voting members are the solid waste officers and a lay person from each county, as provided in the Landfill's bylaws. In the event of dissolution of the joint powers board, the net assets of the Landfill at that time shall be divided amount the two counties by a percentage of population and contributions that, per county, generated the assets. Should a loss situation occur, the expenses shall be shared in the same proportion.

Mar-Kit Landfill's long-term debt was paid off in 2011. Financing is provided by charges for services and appropriations from member counties. Kittson County contributed \$25,000 to the Landfill in 2013. Kittson County, in an agent capacity, reports the cash transactions of the Landfill as an agency fund on its financial statements. Complete financial information can be obtained from the Kittson County Administrator's Office, P.O. Box 848, Hallock, Minnesota 56728.

Northwest Minnesota Regional Radio Board

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

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

The Northwest Minnesota Regional Radio Board has no long-term debt. Financing is provided by annual contributions from members, reflective of the extent of participation and use of services. Kittson County did not contribute to the Northwest Regional Radio Board for the year ended December 31, 2013. Complete financial information can be obtained from Headwaters Regional Development Commission, P.O. Box 906, Bemidji, Minnesota 56619.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Northwest Service Cooperative

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

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

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

Northwestern Counties Data Processing Security Association

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

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

The Northwestern Counties Data Processing Security Association has no long-term debt. Financing is provided by state grants and appropriations from member counties when needed. Kittson County did not contribute to the Association for the year ended December 31, 2013. Lake of the Woods County, in an agent capacity, reports the cash transactions of the Association as an agency fund on its financial statements. Complete financial information can be obtained from the Lake of the Woods County Auditor’s Office, 206 8<sup>th</sup> Avenue SE, Suite 260, Baudette, MN 56623.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Northwestern Minnesota Household Hazardous Waste Management Group

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

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

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Kittson County contributed \$4,466 to the Waste Management Group for the year ended December 31, 2013. Clearwater County, in an agent capacity, reports the cash transactions of the Waste Management Group as an agency fund on its financial statements. Complete financial information can be obtained from the Clearwater County Auditor's Office or the Waste Management Group's office, P.O. Box 186, Bagley, Minnesota 56621.

Northwestern Minnesota Juvenile Center

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

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

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northwestern Minnesota Juvenile Center (Continued)

the net assets of the Center shall be divided among the member counties in the same proportion as their respective financial responsibilities.

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

Quin County Community Health Service

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

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

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

Williams Mobile Relay Station

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

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

The Williams Mobile Relay Station has no long-term debt. Financing is provided by contributions from each member county representing an equal share of annual expense. The

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Williams Mobile Relay Station (Continued)

County did not make a contribution to the Williams Mobile Relay Station in 2013. Complete financial information can be obtained from the Lake of the Woods County Auditor's Office, P.O. Box 808, Baudette, Minnesota 56623.

D. Related Organizations

Joe River Watershed District

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

Two Rivers Watershed District

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

E. Jointly-Governed Organizations

Job Training Partnership Act Joint Powers Agreement

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

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

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations

Job Training Partnership Act Joint Powers Agreement (Continued)

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

Kittson County Children's Collaborative

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

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

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

Financing is provided by state grants and appropriations from its members. Kittson County Social Services, in an agent capacity, reports the cash transactions of the Kittson County Children's Collaborative as an agency fund on the County's financial statements. During 2013, the County did not contribute to the Collaborative.

Kittson Economic Development Authority

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

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

Financing is provided by revolving loans. Kittson County, in an agent capacity, reports the cash transactions of the Kittson EDA as an agency fund on the County's financial statements. During 2013, the County contributed \$10,000 to help fund the operation of the EDA.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Minnesota Counties Computer Consortium

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

Minnesota Rural Counties Caucus

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

Northwest Minnesota Council of Collaboratives

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

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

Financing is provided by the collection of membership dues from the participating collaboratives and agency partners. Tri-County Community Corrections acts as fiscal agent for the Northwest Minnesota Council of Collaboratives and reports the cash transactions of the Council of Collaboratives as an agency fund in its financial statements. During 2013, Kittson County did not contribute to the Council of Collaboratives.

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

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Northwest Minnesota Multi-County Housing and Redevelopment Authority

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

Northwest Regional Library

The Northwest Regional Library was formed pursuant to Minnesota Statute, §§ 134.20 and 471.59, effective January 1, 1981, and includes Kittson, Marshall, Pennington, Red Lake, and Roseau Counties. Control of the Library is vested in the Northwest Regional Library Board which is composed of 16 members with staggered terms made up of the following: one member appointed by each board of county commissioners who may be a member of the Board of Commissioners, one member appointed by each participating city, and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. Kittson County appropriated \$60,000 to the Library for the year ended December 31, 2013.

Northwest Workforce Service Area

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

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

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



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Roseau River Watershed District

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 2,234,135	\$ 2,234,135	\$ 2,249,768	\$ 15,633
Licenses and permits	3,645	3,645	8,235	4,590
Intergovernmental	957,538	957,538	1,351,500	393,962
Charges for services	214,513	214,513	228,840	14,327
Fines and forfeitures	4,000	4,000	3,730	(270)
Investment earnings	101,400	101,400	(136,125)	(237,525)
Miscellaneous	71,331	71,331	129,597	58,266
<b>Total Revenues</b>	<b>\$ 3,586,562</b>	<b>\$ 3,586,562</b>	<b>\$ 3,835,545</b>	<b>\$ 248,983</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 182,159	\$ 182,159	\$ 185,280	\$ (3,121)
District court	24,300	24,300	14,080	10,220
Law library	5,500	5,500	6,281	(781)
County administration	444,423	444,423	461,876	(17,453)
County assessor	239,962	239,962	238,324	1,638
Elections	5,500	5,500	4,961	539
Professional services	20,500	20,500	19,114	1,386
Data processing	213,562	213,562	165,878	47,684
Attorney	82,890	82,890	77,248	5,642
Recorder	137,005	137,005	129,879	7,126
Surveyor	3,000	3,000	6,199	(3,199)
Buildings and grounds	225,393	225,393	143,464	81,929
GIS/LIS	-	-	16,403	(16,403)
Veterans service officer	31,093	31,093	36,637	(5,544)
Insurance	50,250	50,250	47,667	2,583
Other general government	25,823	25,823	35,351	(9,528)
<b>Total general government</b>	<b>\$ 1,691,360</b>	<b>\$ 1,691,360</b>	<b>\$ 1,588,642</b>	<b>\$ 102,718</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 1  
(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 679,412	\$ 679,412	\$ 704,858	\$ (25,446)
Boat and water safety	500	500	452	48
Community corrections	206,879	206,879	209,517	(2,638)
Coroner	8,000	8,000	11,076	(3,076)
Enhanced 911	20,600	20,600	33,621	(13,021)
Emergency management	44,250	44,250	42,658	1,592
Fire protection	500	500	500	-
Local Emergency Planning Commission	1,000	1,000	1,489	(489)
Operation Stonegarden	130,354	130,354	83,813	46,541
Probation and parole	35,000	35,000	30,576	4,424
Safety committee	4,738	4,738	4,725	13
Transmission tower	6,226	6,226	18,583	(12,357)
Victim assistance	-	-	19	(19)
<b>Total public safety</b>	<b>\$ 1,137,459</b>	<b>\$ 1,137,459</b>	<b>\$ 1,141,887</b>	<b>\$ (4,428)</b>
<b>Sanitation</b>				
Recycling	\$ 53,658	\$ 53,658	\$ 63,224	\$ (9,566)
Solid waste	6,382	6,382	9,001	(2,619)
<b>Total sanitation</b>	<b>\$ 60,040</b>	<b>\$ 60,040</b>	<b>\$ 72,225</b>	<b>\$ (12,185)</b>
<b>Health</b>				
Ambulance	\$ 29,068	\$ 29,068	\$ 29,068	\$ -
Hospice	7,500	7,500	7,500	-
Kittson wellness	800	800	2,000	(1,200)
Nutrition education	200	200	116	84
<b>Total health</b>	<b>\$ 37,568</b>	<b>\$ 37,568</b>	<b>\$ 38,684</b>	<b>\$ (1,116)</b>
<b>Culture and recreation</b>				
Historical society	\$ 55,000	\$ 55,000	\$ 55,000	\$ -
Regional library	60,000	60,000	60,000	-
Snowmobile and ski trails	106,136	106,136	95,522	10,614
Veterans organizations	500	500	500	-
<b>Total culture and recreation</b>	<b>\$ 221,636</b>	<b>\$ 221,636</b>	<b>\$ 211,022</b>	<b>\$ 10,614</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 1  
(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Conservation of natural resources</b>				
Agricultural inspection	\$ 9,500	\$ 9,500	\$ 9,500	\$ -
Agricultural society	22,500	22,500	22,500	-
County extension	104,404	104,404	102,019	2,385
Flood plain acquisition	-	-	20,791	(20,791)
Predator and weed control	3,200	3,200	3,026	174
Soil and water conservation	41,200	41,200	43,969	(2,769)
Water planning	63,195	63,195	43,279	19,916
<b>Total conservation of natural resources</b>	<b>\$ 243,999</b>	<b>\$ 243,999</b>	<b>\$ 245,084</b>	<b>\$ (1,085)</b>
<b>Economic development</b>				
Kittson Office of Economic Development	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Northwest Community Action	-	-	5,754	(5,754)
Rehabilitation	36,000	36,000	297,770	(261,770)
Tax abatement	110,000	110,000	107,494	2,506
<b>Total economic development</b>	<b>\$ 156,000</b>	<b>\$ 156,000</b>	<b>\$ 421,018</b>	<b>\$ (265,018)</b>
<b>Total Current</b>	<b>\$ 3,548,062</b>	<b>\$ 3,548,062</b>	<b>\$ 3,718,562</b>	<b>\$ (170,500)</b>
<b>Capital outlay</b>				
General government	\$ 20,000	\$ 20,000	\$ 156,765	\$ (136,765)
Public safety	18,500	18,500	114,733	(96,233)
<b>Total capital outlay</b>	<b>\$ 38,500</b>	<b>\$ 38,500</b>	<b>\$ 271,498</b>	<b>\$ (232,998)</b>
<b>Total Expenditures</b>	<b>\$ 3,586,562</b>	<b>\$ 3,586,562</b>	<b>\$ 3,990,060</b>	<b>\$ (403,498)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (154,515)</b>	<b>\$ (154,515)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(3,688)	(3,688)
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (158,203)</b>	<b>\$ (158,203)</b>
<b>Fund Balance - January 1</b>	<b>4,781,513</b>	<b>4,781,513</b>	<b>4,781,513</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,781,513</b>	<b>\$ 4,781,513</b>	<b>\$ 4,623,310</b>	<b>\$ (158,203)</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 322,353	\$ 322,353	\$ 323,051	\$ 698
Intergovernmental	4,359,554	4,359,554	4,775,870	416,316
Charges for services	647,625	647,625	592,144	(55,481)
Miscellaneous	13,750	13,750	45,763	32,013
<b>Total Revenues</b>	<b>\$ 5,343,282</b>	<b>\$ 5,343,282</b>	<b>\$ 5,736,828</b>	<b>\$ 393,546</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 460,246	\$ 460,246	\$ 405,244	\$ 55,002
Engineering	456,648	456,648	328,511	128,137
Maintenance	1,243,957	1,243,957	1,029,355	214,602
Construction	2,418,270	2,418,270	3,090,783	(672,513)
Equipment maintenance and shop	534,750	534,750	498,052	36,698
Township roads	-	-	459,220	(459,220)
<b>Total Current</b>	<b>\$ 5,113,871</b>	<b>\$ 5,113,871</b>	<b>\$ 5,811,165</b>	<b>\$ (697,294)</b>
<b>Capital outlay</b>				
Highways and streets	303,000	303,000	266,382	36,618
<b>Total Expenditures</b>	<b>\$ 5,416,871</b>	<b>\$ 5,416,871</b>	<b>\$ 6,077,547</b>	<b>\$ (660,676)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (73,589)</b>	<b>\$ (73,589)</b>	<b>\$ (340,719)</b>	<b>\$ (267,130)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	23,312	23,312	-	(23,312)
<b>Net Change in Fund Balance</b>	<b>\$ (50,277)</b>	<b>\$ (50,277)</b>	<b>\$ (340,719)</b>	<b>\$ (290,442)</b>
<b>Fund Balance - January 1</b>	<b>357,422</b>	<b>357,422</b>	<b>357,422</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>(90,299)</b>	<b>(90,299)</b>
<b>Fund Balance - December 31</b>	<b>\$ 307,145</b>	<b>\$ 307,145</b>	<b>\$ (73,596)</b>	<b>\$ (380,741)</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 542,122	\$ 542,122	\$ 541,559	\$ (563)
Intergovernmental	672,424	672,424	735,227	62,803
Charges for services	105,110	105,110	124,009	18,899
Investment earnings	-	-	253	253
Miscellaneous	72,166	72,166	167,710	95,544
<b>Total Revenues</b>	<b>\$ 1,391,822</b>	<b>\$ 1,391,822</b>	<b>\$ 1,568,758</b>	<b>\$ 176,936</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 415,354	\$ 415,354	\$ 461,659	\$ (46,305)
Social services	1,338,093	1,338,093	1,247,021	91,072
Transportation	21,765	21,765	25,217	(3,452)
<b>Total Expenditures</b>	<b>\$ 1,775,212</b>	<b>\$ 1,775,212</b>	<b>\$ 1,733,897</b>	<b>\$ 41,315</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (383,390)</b>	<b>\$ (383,390)</b>	<b>\$ (165,139)</b>	<b>\$ 218,251</b>
<b>Fund Balance - January 1</b>	<b>1,436,831</b>	<b>1,436,831</b>	<b>1,436,831</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,053,441</b>	<b>\$ 1,053,441</b>	<b>\$ 1,271,692</b>	<b>\$ 218,251</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 4**

**SCHEDULE OF FUNDING PROGRESS  
OTHER POST-EMPLOYMENT BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**PRIMARY GOVERNMENT**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) — Simplified Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
January 1, 2011	-	614,562	614,562	-	2,707,090	22.7%
January 1, 2012	-	-	-	-	2,806,435	0.0%
January 1, 2013	-	691,502	691,502	-	2,991,975	23.1%



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 5**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS  
OTHER POST-EMPLOYMENT BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**PRIMARY GOVERNMENT**

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Employer Contribution</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
December 31, 2011	91,663	23,969	26%	290,694
December 31, 2012	(35,201)	6,651	-19%	248,842
December 31, 2013	28,267	7,942	28%	269,167

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

I. Budgetary Information

A. Budget Policy

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

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

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

B. Excess of Expenditures Over Budget

The following departments had expenditures in excess of budget for the year ended December 31, 2013:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Commissioners	\$ 185,280	\$ 182,159	\$ (3,121)
Law library	6,281	5,500	(781)
County Administration	461,876	444,423	(17,453)
Surveyor	6,199	3,000	(3,199)
GIS/LIS	16,403	-	(16,403)
Veterans service officer	36,637	31,093	(5,544)
Other general government	35,351	25,823	(9,528)
Public safety			
Sheriff	704,858	679,412	(25,446)
Community corrections	209,517	206,879	(2,638)
Coroner	11,076	8,000	(3,076)
Enhanced 911	33,621	20,600	(13,021)
Local Emergency Planning Commission	1,489	1,000	(489)
Transmission tower	18,583	6,226	(12,357)
Victim assistance	19	-	(19)
Sanitation			
Recycling	63,224	53,658	(9,566)
Solid waste	9,001	6,382	(2,619)
Health			
Kittson wellness	2,000	800	(1,200)

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Budgetary Information

B. Excess of Expenditures Over Budget (Continued)

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Conservation of natural resources			
Flood plain acquisition	20,791	-	(20,791)
Soil and water conservation	43,969	41,200	(2,769)
Economic development			
Northwest Community Action	5,754	-	(5,754)
Rehabilitation	297,770	36,000	(261,770)
Capital outlay			
General government	156,765	20,000	(136,765)
Public safety	114,733	18,500	(96,233)
Road and Bridge Special Revenue Fund			
Highways and streets			
Construction	3,090,783	2,418,270	(672,513)
Township roads	459,220	-	(459,220)
Social Services Special Revenue Fund			
Human services			
Income maintenance	461,659	415,354	(46,305)
Transportation	25,217	21,765	(3,452)

II. Other Post-Employment Benefits (OPEB)

Primary Government

For the year ended December 31, 2013, the composition of the population covered by the plan and the actuarial methods and assumptions used did not significantly differ. Private insurance rates were slightly higher and County rates were lower in 2013, resulting in an increased implicit rate subsidy as compared to 2012. Additional information can be found on Schedules 4 and 5 of this section and the Notes to the Financial Statements Section V., Other Post-Employment Benefits.

**SUPPLEMENTARY INFORMATION**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**NONMAJOR GOVERNMENTAL FUNDS**

Special Revenue Funds

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

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

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

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Statement 1*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2013**

	Special Revenue Funds				Total Nonmajor Special Revenue Funds (Exhibit 3)
	Ditch	Forfeited Tax Sale	Health Insurance	Unorganized Townships	
<b>Assets</b>					
Cash and pooled investments	\$ 516,965	\$ -	\$ 394	\$ 250,686	\$ 768,045
Taxes receivable - prior	-	-	-	612	612
Special assessments receivable - prior	395	-	-	-	395
Due from other governments	3,605	-	-	-	3,605
<b>Total Assets</b>	<b>\$ 520,965</b>	<b>\$ -</b>	<b>\$ 394</b>	<b>\$ 251,298</b>	<b>\$ 772,657</b>
<b>Liabilities, Deferred Inflows and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ 929	\$ -	\$ -	\$ 929
Due to other funds	-	-	-	1,100	1,100
Due to other governments	2,577	153	-	-	2,730
Advances from other funds	4,200	97,584	-	-	101,784
<b>Total Liabilities</b>	<b>\$ 6,777</b>	<b>\$ 98,666</b>	<b>\$ -</b>	<b>\$ 1,100</b>	<b>\$ 106,543</b>
<b>Deferred Inflows</b>					
Taxes	\$ -	\$ -	\$ -	\$ 566	\$ 566
Special assessments	128	-	-	-	128
<b>Total Deferred Inflows</b>	<b>\$ 128</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 566</b>	<b>\$ 694</b>
<b>Fund Balances</b>					
Restricted for conservation of natural resources	\$ 514,060	\$ -	\$ -	\$ -	\$ 514,060
Assigned to					
Unorganized townships	-	-	-	249,632	249,632
Insurance	-	-	394	-	394
Unassigned	-	(98,666)	-	-	(98,666)
<b>Total Fund Balances</b>	<b>\$ 514,060</b>	<b>\$ (98,666)</b>	<b>\$ 394</b>	<b>\$ 249,632</b>	<b>\$ 665,420</b>
<b>Total Liabilities, Deferred Inflows and Fund Balances</b>	<b>\$ 520,965</b>	<b>\$ -</b>	<b>\$ 394</b>	<b>\$ 251,298</b>	<b>\$ 772,657</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Statement 2*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Special Revenue Funds				Total Nonmajor Special Revenue Funds (Exhibit 5)
	Ditch	Forfeited Tax Sale	Health Insurance	Unorganized Townships	
<b>Revenues</b>					
Taxes	\$ -	\$ -	\$ -	\$ 34,129	\$ 34,129
Special assessments	64,893	-	-	-	64,893
Intergovernmental	10,075	-	-	28,807	38,882
Charges for services	4,336	-	-	-	4,336
Land and timber sales	-	4,613	-	-	4,613
Miscellaneous	-	1,506	563,395	-	564,901
<b>Total Revenues</b>	<b>\$ 79,304</b>	<b>\$ 6,119</b>	<b>\$ 563,395</b>	<b>\$ 62,936</b>	<b>\$ 711,754</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ -	\$ -	\$ 566,689	\$ -	\$ 566,689
Public safety	-	-	-	6,007	6,007
Highways and streets	-	-	-	55,542	55,542
Conservation of natural resources	61,935	85,056	-	-	146,991
<b>Total Current</b>	<b>\$ 61,935</b>	<b>\$ 85,056</b>	<b>\$ 566,689</b>	<b>\$ 61,549</b>	<b>\$ 775,229</b>
<b>Debt Service</b>					
Interest	407	-	-	-	407
<b>Total Expenditures</b>	<b>\$ 62,342</b>	<b>\$ 85,056</b>	<b>\$ 566,689</b>	<b>\$ 61,549</b>	<b>\$ 775,636</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 16,962</b>	<b>\$ (78,937)</b>	<b>\$ (3,294)</b>	<b>\$ 1,387</b>	<b>\$ (63,882)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	3,688	-	3,688
<b>Net Change in Fund Balance</b>	<b>\$ 16,962</b>	<b>\$ (78,937)</b>	<b>\$ 394</b>	<b>\$ 1,387</b>	<b>\$ (60,194)</b>
<b>Fund Balance - January 1</b>	<b>497,098</b>	<b>(19,729)</b>	<b>-</b>	<b>248,245</b>	<b>725,614</b>
<b>Fund Balance - December 31</b>	<b>\$ 514,060</b>	<b>\$ (98,666)</b>	<b>\$ 394</b>	<b>\$ 249,632</b>	<b>\$ 665,420</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 6*

**BUDGETARY COMPARISON SCHEDULE  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Special assessments	\$ 61,300	\$ 61,300	\$ 64,893	\$ 3,593
Intergovernmental	-	-	10,075	10,075
Charges for services	-	-	4,336	4,336
<b>Total Revenues</b>	<b>\$ 61,300</b>	<b>\$ 61,300</b>	<b>\$ 79,304</b>	<b>\$ 18,004</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Administration	\$ -	\$ -	\$ 449	\$ (449)
Maintenance and repairs	38,400	38,400	61,486	(23,086)
<b>Total current</b>	<b>\$ 38,400</b>	<b>\$ 38,400</b>	<b>\$ 61,935</b>	<b>\$ (23,535)</b>
<b>Debt service</b>				
Interest	-	-	407	(407)
<b>Total Expenditures</b>	<b>\$ 38,400</b>	<b>\$ 38,400</b>	<b>\$ 62,342</b>	<b>\$ (23,942)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 22,900</b>	<b>\$ 22,900</b>	<b>\$ 16,962</b>	<b>\$ (5,938)</b>
<b>Fund Balance - January 1</b>	<b>497,098</b>	<b>497,098</b>	<b>497,098</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 519,998</b>	<b>\$ 519,998</b>	<b>\$ 514,060</b>	<b>\$ (5,938)</b>



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 7*

**BUDGETARY COMPARISON SCHEDULE  
FORFEITED TAX SALE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Land and timber sales	\$ 8,000	\$ 8,000	\$ 4,613	\$ (3,387)
Miscellaneous	-	-	1,506	1,506
<b>Total Revenues</b>	<b>\$ 8,000</b>	<b>\$ 8,000</b>	<b>\$ 6,119</b>	<b>\$ (1,881)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Forfeited land	\$ 10,030	\$ 10,030	\$ 85,056	\$ (75,026)
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (2,030)</b>	<b>\$ (2,030)</b>	<b>\$ (78,937)</b>	<b>\$ (76,907)</b>
<b>Fund Balance - January 1</b>	<b>(19,729)</b>	<b>(19,729)</b>	<b>(19,729)</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ (21,759)</b>	<b>\$ (21,759)</b>	<b>\$ (98,666)</b>	<b>\$ (76,907)</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 8*

**BUDGETARY COMPARISON SCHEDULE  
HEALTH INSURANCE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Miscellaneous	\$ 540,622	\$ 540,622	\$ 563,395	\$ 22,773
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Insurance	540,622	540,622	566,689	(26,067)
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (3,294)</b>	<b>\$ (3,294)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	3,688	3,688
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 394</b>	<b>\$ 394</b>
<b>Fund Balance - January 1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 394</b>	<b>\$ 394</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 9*

**BUDGETARY COMPARISON SCHEDULE  
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 32,800	\$ 32,800	\$ 34,129	\$ 1,329
Intergovernmental	28,375	28,375	28,807	432
<b>Total Revenues</b>	<b>\$ 61,175</b>	<b>\$ 61,175</b>	<b>\$ 62,936</b>	<b>\$ 1,761</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Public safety</b>				
Fire protection	\$ 4,900	\$ 4,900	\$ 6,007	\$ (1,107)
<b>Highways and streets</b>				
Township roads	72,735	72,735	55,542	17,193
<b>Total Expenditures</b>	<b>\$ 77,635</b>	<b>\$ 77,635</b>	<b>\$ 61,549</b>	<b>\$ 16,086</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (16,460)</b>	<b>\$ (16,460)</b>	<b>\$ 1,387</b>	<b>\$ 17,847</b>
<b>Fund Balance - January 1</b>	<b>248,245</b>	<b>248,245</b>	<b>248,245</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 231,785</b>	<b>\$ 231,785</b>	<b>\$ 249,632</b>	<b>\$ 17,847</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**FIDUCIARY FUNDS**

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

Agency Funds

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

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

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

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

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

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

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

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

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Statement 3*

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>AGENCY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 14,065	\$ 4,426,614	\$ 4,256,732	\$ 183,947
<b><u>Liabilities</u></b>				
Due to other governments	\$ 14,065	\$ 4,426,614	\$ 4,256,732	\$ 183,947
 <b><u>FLEXIBLE BENEFITS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 10,578	\$ 25,469	\$ 28,008	\$ 8,039
<b><u>Liabilities</u></b>				
Accounts payable	\$ 10,578	\$ 25,469	\$ 28,008	\$ 8,039
 <b><u>KITTSOON COUNTY CHILDREN'S COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 10,979	\$ 3,889	\$ -	\$ 14,868
<b><u>Liabilities</u></b>				
Accounts payable	\$ 10,979	\$ 3,889	\$ -	\$ 14,868
 <b><u>KITTSOON COUNTY ECONOMIC DEVELOPMENT AUTHORITY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 116,549	\$ 43,568	\$ 19,432	\$ 140,685
<b><u>Liabilities</u></b>				
Accounts payable	\$ 116,549	\$ 43,568	\$ 19,432	\$ 140,685

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Statement 3  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>KITTSOON-MARSHALL RURAL WATER SYSTEM</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 661	\$ 267	\$ -	\$ 928
<b><u>Liabilities</u></b>				
Due to other governments	\$ 661	\$ 267	\$ -	\$ 928
 <b><u>MAR-KIT LANDFILL</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 2,003,112	\$ 2,458,607	\$ 1,719,333	\$ 2,742,386
<b><u>Liabilities</u></b>				
Due to other governments	\$ 2,003,112	\$ 2,458,607	\$ 1,719,333	\$ 2,742,386
 <b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 15,694	\$ 1,706,414	\$ 1,705,688	\$ 16,420
<b><u>Liabilities</u></b>				
Due to other governments	\$ 15,694	\$ 1,706,414	\$ 1,705,688	\$ 16,420
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 138,238	\$ 6,192,177	\$ 6,184,247	\$ 146,168
<b><u>Liabilities</u></b>				
Due to other governments	\$ 138,238	\$ 6,192,177	\$ 6,184,247	\$ 146,168

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Statement 3  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>WATERSHED DITCH</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 9,910	\$ 9,910	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 9,910	\$ 9,910	\$ -
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 2,309,876	\$ 14,866,915	\$ 13,923,350	\$ 3,253,441
<b><u>Liabilities</u></b>				
Accounts payable	\$ 138,106	\$ 72,926	\$ 47,440	\$ 163,592
Due to other governments	2,171,770	14,793,989	13,875,910	3,089,849
<b>Total Liabilities</b>	<b>\$ 2,309,876</b>	<b>\$ 14,866,915</b>	<b>\$ 13,923,350</b>	<b>\$ 3,253,441</b>

## **OTHER SCHEDULES**



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**BALANCE SHEET - BY DITCH  
DITCH SPECIAL REVENUE FUND  
DECEMBER 31, 2013**

	Assets			
	Cash and Pooled Investments	Special Assessments Receivable - Prior	Due from Other Governments	Total
<b>County Ditches</b>				
1	\$ 48,050	\$ -	\$ -	\$ 48,050
4	12,367	27	-	12,394
8	11,740	-	-	11,740
9	11,333	-	-	11,333
11	9,245	-	-	9,245
12	13,949	-	-	13,949
13	4,638	-	-	4,638
14	8,225	-	-	8,225
15	1,012	-	-	1,012
16	47,618	-	-	47,618
17	13,651	-	-	13,651
18	9,622	57	-	9,679
19	18,301	-	-	18,301
20	7,046	-	-	7,046
21	1,174	-	-	1,174
22	21,009	-	-	21,009
23	8,638	-	-	8,638
25	13,869	-	-	13,869
26	7,965	-	-	7,965
27	25,934	-	-	25,934
28	15,264	-	-	15,264
29	21,038	-	-	21,038
30	5,943	-	-	5,943
31	14,981	-	-	14,981
33	5,739	-	-	5,739
<b>Joint County Ditches</b>				
31	10,734	59	-	10,793
32	4,747	-	-	4,747
33	11,594	-	4	11,598
<b>State Ditches</b>				
1	8,586	-	-	8,586
48R	2,358	17	-	2,375
50	3,711	-	-	3,711
72	12,653	37	2,222	14,912
84	14,412	17	-	14,429
85	24,337	-	-	24,337
90	13,254	142	197	13,593
95	52,228	39	1,182	53,449
<b>Total</b>	<b>\$ 516,965</b>	<b>\$ 395</b>	<b>\$ 3,605</b>	<b>\$ 520,965</b>

**Schedule 10**

		<b>Liabilities</b>					<b>Total</b>	
<b>Due to Other Governments</b>	<b>Advances from Other Funds</b>	<b>Total</b>	<b>Deferred Inflows</b>	<b>Fund Balances Restricted</b>	<b>Liabilities, Deferred Inflows and Fund Balances</b>			
\$ -	\$ -	\$ -	\$ -	\$ 48,050	\$ 48,050			
-	-	-	6	12,388	12,394			
-	-	-	-	11,740	11,740			
-	-	-	-	11,333	11,333			
-	-	-	-	9,245	9,245			
-	-	-	-	13,949	13,949			
-	-	-	-	4,638	4,638			
-	-	-	-	8,225	8,225			
-	4,200	4,200	-	(3,188)	1,012			
-	-	-	-	47,618	47,618			
-	-	-	-	13,651	13,651			
-	-	-	-	9,679	9,679			
-	-	-	-	18,301	18,301			
-	-	-	-	7,046	7,046			
-	-	-	-	1,174	1,174			
-	-	-	-	21,009	21,009			
-	-	-	-	8,638	8,638			
-	-	-	-	13,869	13,869			
-	-	-	-	7,965	7,965			
-	-	-	-	25,934	25,934			
-	-	-	-	15,264	15,264			
-	-	-	-	21,038	21,038			
-	-	-	-	5,943	5,943			
-	-	-	-	14,981	14,981			
-	-	-	-	5,739	5,739			
-	-	-	19	10,774	10,793			
-	-	-	-	4,747	4,747			
-	-	-	-	11,598	11,598			
-	-	-	17	8,569	8,586			
-	-	-	-	2,375	2,375			
-	-	-	-	3,711	3,711			
914	-	914	37	13,961	14,912			
-	-	-	17	14,412	14,429			
-	-	-	-	24,337	24,337			
428	-	428	32	13,133	13,593			
1,235	-	1,235	-	52,214	53,449			
<b>\$ 2,577</b>	<b>\$ 4,200</b>	<b>\$ 6,777</b>	<b>\$ 128</b>	<b>\$ 514,060</b>	<b>\$ 520,965</b>			

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 11*

**BALANCE SHEET - BY UNORGANIZED TOWNSHIP  
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND  
DECEMBER 31, 2013**

	Klondike	McKinley	North Red River	Peatland	Total
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 11,018	\$ 40,759	\$ 135,158	\$ 63,751	\$ 250,686
Taxes receivable - prior	505	17	-	90	612
<b>Total Assets</b>	<b><u>\$ 11,523</u></b>	<b><u>\$ 40,776</u></b>	<b><u>\$ 135,158</u></b>	<b><u>\$ 63,841</u></b>	<b><u>\$ 251,298</u></b>
<b><u>Liabilities, Deferred Inflows and Fund Balance</u></b>					
<b>Liabilities</b>					
Due to other funds	\$ 266	\$ 668	\$ 129	\$ 37	\$ 1,100
<b>Deferred Inflows</b>					
Taxes	505	17	-	44	566
<b>Fund Balances</b>					
Assigned to unorganized townships	10,752	40,091	135,029	63,760	249,632
<b>Total Liabilities, Deferred Inflows and Fund Balance</b>	<b><u>\$ 11,523</u></b>	<b><u>\$ 40,776</u></b>	<b><u>\$ 135,158</u></b>	<b><u>\$ 63,841</u></b>	<b><u>\$ 251,298</u></b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 12**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>Primary Government</b>
<b>Shared Revenue</b>	
<b>State</b>	
County program aid	\$ 90,731
Disparity reduction aid	4,458
Enhanced 911	74,184
Highway users tax	3,880,491
Market value credit	63,283
PERA rate reimbursement	13,027
Police state aid	36,192
Sales tax rebate	17,748
	<b>\$ 4,180,114</b>
<b>Payments</b>	
Payments in lieu of taxes	\$ 152,879
<b>Grants</b>	
<b>Local</b>	
Markit Landfill	\$ 141,000
<b>State</b>	
<b>Minnesota Department/Board of</b>	
Corrections	\$ 8,157
Human Services	258,197
Natural Resources	180,851
Peace Officer Standards and Training	2,052
Public Safety	33,327
Pollution Control Agency	55,950
Veterans Affairs	7,500
Water and Soil Resources	98,666
	<b>\$ 644,700</b>
<b>Federal</b>	
<b>Department of</b>	
Agriculture	\$ 32,453
Health and Human Services	455,171
Homeland Security	118,773
Housing and Urban Development	297,844
Transportation	878,545
	<b>\$ 1,782,786</b>
<b>Total Federal</b>	<b>\$ 1,782,786</b>
<b>Total Grants</b>	<b>\$ 2,568,486</b>
<b>Total Intergovernmental Revenue</b>	<b>\$ 6,901,479</b>

**MANAGEMENT AND COMPLIANCE SECTION**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 13**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses an unmodified opinion on the financial statements of Kittson County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Kittson County and are reported in the "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None of the significant deficiencies are material weaknesses.
- C. No instances of noncompliance material to the financial statements of Kittson County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program was reported in the "Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by in OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for Kittson County expresses an unmodified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program was Medical Assistance Program, CFDA #93.778.
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Kittson County was determined to be a low-risk auditee.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 13*  
*(Continued)*

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

1996-001 Segregation of Duties

Due to the limited number of personnel within several County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Kittson County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting control point of view.

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.

We recommend that Kittson County's management be aware of the lack of segregation of the accounting and data processing functions and, if possible, implement oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

County's Response:

*The County Board and the Department Administrators will continue to monitor the operations within their offices and will consider additional procedures to ensure internal control.*

2007-001 Internal Controls

The financial statements are the responsibility of the County's management. Internal control over financial reporting is a process designed to provide reasonable assurance about the achievement of the County's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the County's objective of reliable financial reporting. In this section, the term financial reporting relates to the preparation of reliable financial statements that are fairly presented in conformity with GAAP.

Management must implement internal controls over financial reporting and safeguarding of assets, and continue to be aware of their responsibility and to maintain suitable skills, knowledge, and expertise to sufficiently review, understand, and approve the County's financial statements, including notes.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 13**  
***(Continued)***

County's Response:

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

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

None.

**IV. OTHER FINDINGS AND RESPONSES**

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

1996-003 Ditch Restricted Fund Balances

One of the 36 active individual ditch funds had a deficit restricted fund balance of \$3,188 as of December 31, 2013.

Minnesota Statute, § 103E.735. Subd. 1, provides that a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

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

County's Response:

*The County Board continues to work on eliminating the number of ditch balances that are negative. Ditch trial balances are presented to the County Board, as well as quarterly financial reports to heighten their awareness of funds available for maintenance on individual ditches. The levies for the ditches are determined by the prior year's maintenance to cover the deficits.*





**GOVERNMENTAL AUDIT SERVICES**

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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**

Board of County Commissioners  
Kittson County

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kittson County as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 18, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Kittson County's internal control over financial reporting (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.

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 County's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 1996-001 and 2007-001, that we consider to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Kittson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as a management practices comment, item 1996-003.

## **Minnesota Legal Compliance**

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

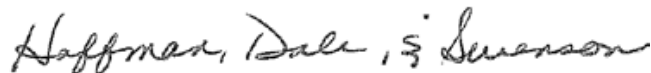
In connection with our audit, nothing came to our attention that caused us to believe that the County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.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

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

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the result of that testing, and not to provide an opinion on the effectiveness of the County's internal control 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.



Hoffman, Dale, & Swenson, PLLC

September 18, 2014



**GOVERNMENTAL AUDIT SERVICES**

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER  
COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Board of County Commissioners  
Kittson County

**Report on Compliance for the Major Federal Program**

We have audited Kittson County's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2013. The County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the County's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kittson County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

## **Opinion on the Major Federal Program**

In our opinion, Kittson County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

## **Report on Internal Control Over Compliance**

Management of Kittson County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

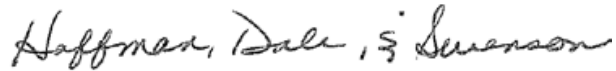
Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kittson County as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated September 18, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and

other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in cursive script that reads "Hoffman, Dale, & Swenson".

Hoffman, Dale, & Swenson, PLLC

September 18, 2014

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 14**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<b>Federal Grantor Pass Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ <u>32,453</u>
<b>U.S. Department of Housing and Urban Development</b>		
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grants	14.228	\$ <u>297,844</u>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ <u>878,545</u>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Northwest Regional Development Commission Special Programs for the Aging - Title III-B	93.044	\$ 4,000
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	1,342
Temporary Assistance for Needy Families	93.558	40,277
Child Support Enforcement	93.563	51,220
Refugee and Entrant Assistance	93.566	83
Child Care and Development Block Grant	93.575	553
Stephanie Tubbs Jones Child Welfare Services Program	93.645	846
Foster Care Title IV-E	93.658	13,425
Social Services Block Grant	93.667	50,709
Children's Health Insurance Program	93.767	15
Medical Assistance Program	93.778	<u>292,701</u>
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ <u>455,171</u></b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety Homeland Security Grant Program	97.067	\$ <u>118,773</u>
<b>Total Federal Awards</b>		<b>\$ <u>1,782,786</u></b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013

I. Reporting Entity

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

II. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Kittson County under programs of the federal government for the year ended December 31, 2013. The information in this schedule is presented in accordance with the requirements of Office Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Kittson County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Kittson County.

III. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

IV. Subrecipients

During 2013, the County did not pass any federal money to subrecipients.

V. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In 2013, the County had no funds designated as ARRA funds.