

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

YEAR ENDED DECEMBER 31, 2011

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

TABLE OF CONTENTS

<b><u>Introductory Section</u></b>	<b><u>Reference</u></b>	<b><u>Page</u></b>
Organization Schedule		1
<b><u>Financial Section</u></b>		
Independent Auditor’s Report		2
Management’s Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	13
Statement of Activities	Exhibit 2	15
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	17
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets – Governmental Activities	Exhibit 4	19
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities – Governmental Activities	Exhibit 6	22
Fiduciary Funds		
Statement of Fiduciary Net Assets	Exhibit 7	23
Statement of Changes in Fiduciary Net Assets	Exhibit 8	24
Notes to the Financial Statements		25
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	59
Road and Bridge Special Revenue Fund	Schedule 2	62
Social Services Special Revenue Fund	Schedule 3	63
Ditch Special Revenue Fund	Schedule 4	64
Other Post-Employment Benefit Plan		
Schedule of Funding Progress	Schedule 5	65
Schedule of Employer Contributions	Schedule 6	66
Notes to the Required Supplementary Information		67
Supplementary Information		
Nonmajor Governmental Funds		
Combining Balance Sheet	Statement 1	70
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement 2	71

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

TABLE OF CONTENTS

<b><u>Financial Section</u></b> (Continued)	<b><u>Reference</u></b>	<b><u>Page</u></b>
Budgetary Comparison Schedules		
Forfeited Tax Sale Special Revenue Fund	Schedule 7	72
Government Commitment Special Revenue Fund	Schedule 8	73
Health Insurance Special Revenue Fund	Schedule 9	74
Unorganized Townships Special Revenue Fund	Schedule 10	75
Fiduciary Funds		
Combining Statement of Changes in Assets and Liabilities – All Agency Funds	Statement 3	77
Other Schedules		
Balance Sheet – By Ditch – Ditch Special Revenue Fund	Schedule 11	80
Balance Sheet – By Unorganized Townships – Unorganized Townships Special Revenue Fund	Schedule 12	82
Schedule of Intergovernmental Revenue	Schedule 13	83
<b><u>Management and Compliance Section</u></b>		
Schedule of Findings and Questioned Costs	Schedule 14	84
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>		87
Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133		89
Schedule of Expenditures of Federal Awards	Schedule 15	91
Notes to the Schedule of Expenditures of Federal Awards		92

## **INTRODUCTORY SECTION**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**ORGANIZATION SCHEDULE  
DECEMBER 31, 2011**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
<b>Commissioners</b>		
1 <sup>st</sup> District	Craig Spilde	January 2013
2 <sup>nd</sup> District	John Anderson	January 2013
3 <sup>rd</sup> District	Joe Bouvette, Chair	January 2015
4 <sup>th</sup> District	Leon Olson	January 2013
5 <sup>th</sup> District	Betty Younggren	January 2015
<b>Officers</b>		
Elected:		
Attorney	Roger Malm	January 2015
Auditor/Treasurer	Marilyn Gustafson	January 2015
Recorder	Kristi Hultgren	January 2015
Sheriff	Kenny Hultgren	January 2015
Appointed:		
Assessor	Marian Paulson	December 2012
Highway Engineer	Kelly Bengtson	May 2015
Medical Examiner	Mary Ann Sens	Indefinite
Veterans Service Officer	Bob Cameron	May 2013
Environmental Officer	Holly Anderson	Indefinite
Social Services Director	Kathleen Johnson	Indefinite

**FINANCIAL SECTION**



**GOVERNMENTAL AUDIT SERVICES**

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

1541 Hwy. 59 South  
Thief River Falls, MN 56701  
Phone: 218-681-4078  
Fax: 218-681-4079  
choffman@mncable.net

**INDEPENDENT AUDITOR'S REPORT**

Board of County Commissioners  
Kittson County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kittson County, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic 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 as of December 31, 2011, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2012, 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* and should be considered in assessing the results of our audit.

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 State 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.

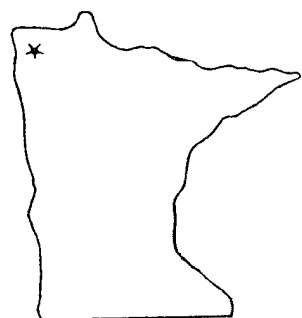
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kittson County's basic financial statements as a whole. The introductory section, the supplementary information, and the other schedules section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied by us 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 financial statements or to the 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 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.

*Hoffman, Dale, & Swenson*

Hoffman, Dale, & Swenson, PLLC

July 31, 2012





# Kittson County

Hallock, Minnesota 56728  
TDD 218-843-3535

## 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, 2011. 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 assets of governmental activities are \$61,158,838, of which \$52,483,930 is invested in capital assets, net of related debt, \$2,222,835 is restricted for specific purposes, and \$6,452,073 is unrestricted. The total net assets of governmental activities increased by \$1,036,686 for the year ended December 31, 2011. This is attributed primarily to highway construction projects financed by County State Aid Highway funding.

At the close of 2011, the County's governmental funds reported combined ending fund balances of \$8,228,143, a decrease of \$825,133 from the prior year. Of the total fund balance amount, \$424,118 is non-spendable, \$1,564,042 is legally or contractually restricted, \$2,442,169 is formally committed for specific purposes, \$1,551,198 is assigned for specific purposes, and \$2,246,616 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 Assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 Assets* 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 Auditor'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, the Social Services Special Revenue Fund, and the Ditch 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. Fiduciary activities are reported on pages 24 and 77 through 79 of this report.

### Notes to the Financial Statements

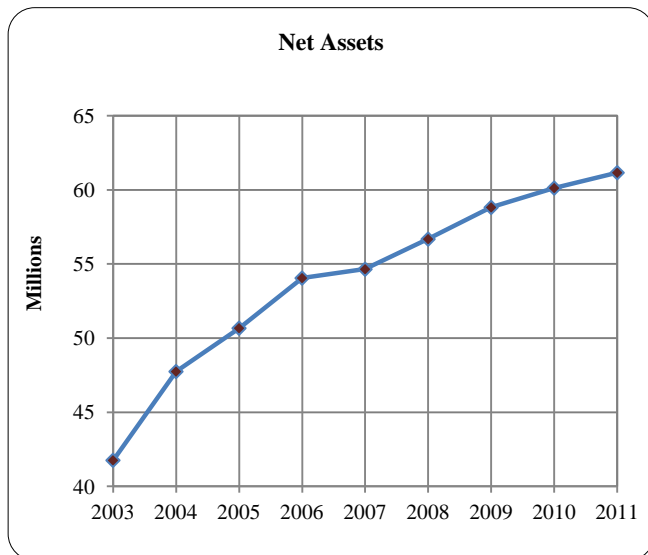
The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 25 of this report.

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

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County’s financial position. The County’s assets exceeded liabilities by \$61,158,838 at the close of 2011. The largest portion of the County’s net assets (approximately 86 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 four percent of the County’s net assets are restricted and 10 percent of the County’s net

assets are unrestricted. The unrestricted net asset amount of \$6,452,073, as of December 31, 2011, may be used to meet the County’s ongoing obligations to citizens.



The County’s overall financial position increased from last year. Total assets increased by \$1,517,461 from the prior year primarily due to increased capital assets. Total liabilities increased by \$480,775, from the prior year, mainly due to increased accounts, salaries and contracts payable. This resulted in increased net assets of \$1,036,686 from the prior year.

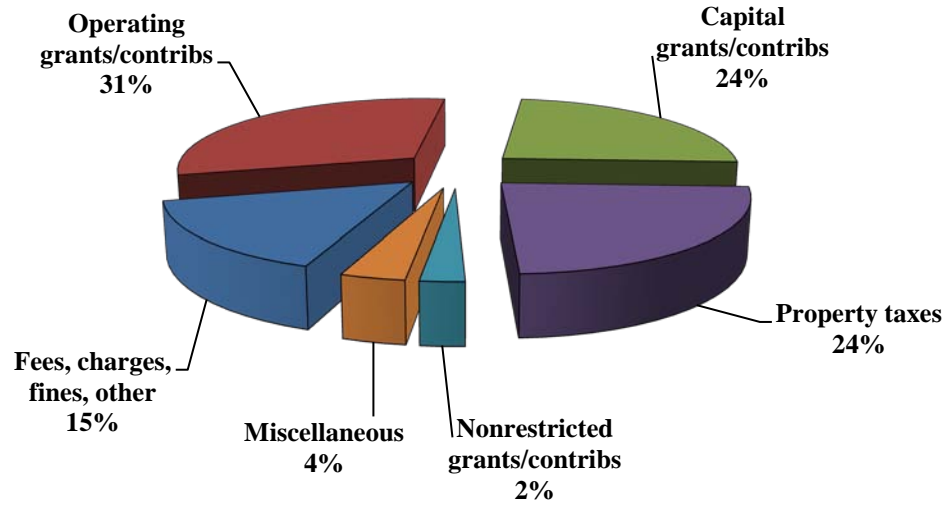
**NET ASSETS**

	<u>Primary Government</u>	
	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 10,064,043	\$ 9,986,895
Capital assets	<u>52,483,930</u>	<u>51,043,617</u>
Total assets	<u>\$ 62,547,973</u>	<u>\$ 61,030,512</u>
Other liabilities	\$ 720,776	\$ 308,528
Long-term liabilities outstanding	<u>668,359</u>	<u>599,832</u>
Total liabilities	<u>\$ 1,389,135</u>	<u>\$ 908,360</u>
Net assets		
Invested in capital assets, net of related debt	\$ 52,483,930	\$ 51,043,617
Restricted	2,222,835	2,353,318
Unrestricted	<u>6,452,073</u>	<u>6,725,217</u>
Total net assets	<u>\$ 61,158,838</u>	<u>\$ 60,122,152</u>

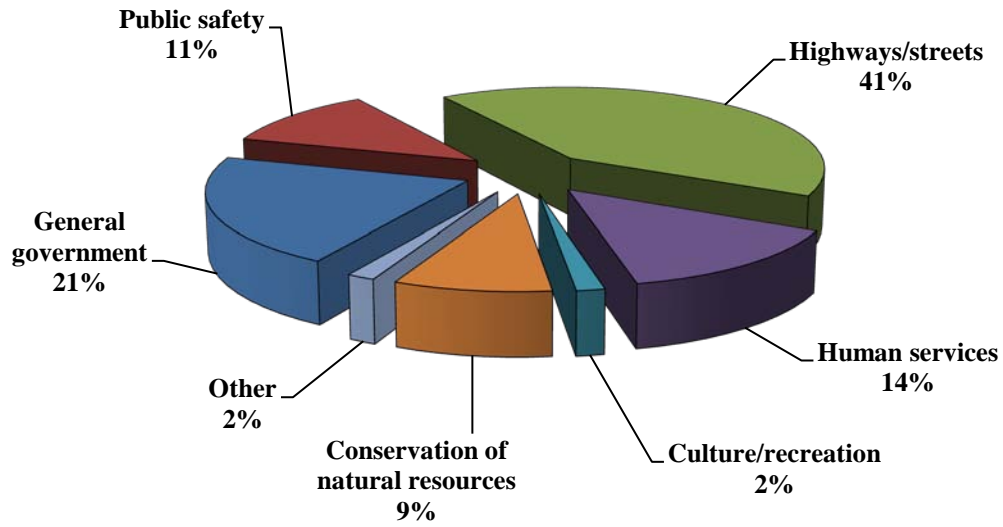
**CHANGES IN NET ASSETS**

	<u>Primary Government</u>	
	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Revenues		
Program Revenues		
Fees, charges, fines and other	\$ 1,873,165	\$ 1,893,173
Operating grants and contributions	3,694,000	2,710,202
Capital grants and contributions	2,855,194	3,526,405
General Revenues		
Property taxes	2,838,727	2,553,505
Grants and contributions not restricted to specific programs	300,433	448,361
Payments in lieu of taxes	154,285	160,619
Insurance dividends	115,429	79,023
Investment earnings	<u>165,950</u>	<u>130,419</u>
Total revenues	<u>\$ 11,997,183</u>	<u>\$ 11,501,707</u>
Expenses		
General government	\$ 2,332,270	\$ 2,179,833
Public safety	1,257,162	1,236,784
Highways and streets	4,543,758	4,397,504
Sanitation	89,076	93,625
Human services	1,530,003	1,273,998
Health	38,251	38,511
Culture and recreation	171,944	216,137
Conservation of natural resources	955,233	719,739
Economic development	<u>42,800</u>	<u>41,700</u>
Total expenses	<u>\$ 10,960,497</u>	<u>\$ 10,197,831</u>
Increase (decrease) in net assets	\$ 1,036,686	\$ 1,303,876
Net assets, January 1	<u>60,122,152</u>	<u>58,818,276</u>
Net assets, December 31	<u>\$ 61,158,838</u>	<u>\$ 60,122,152</u>

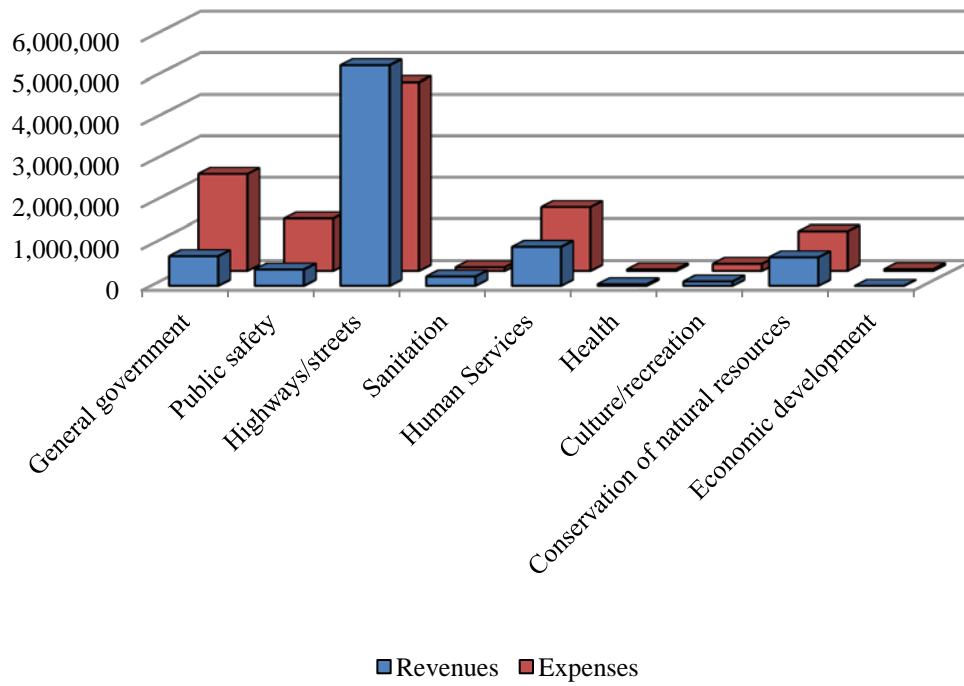
## Revenues by Source



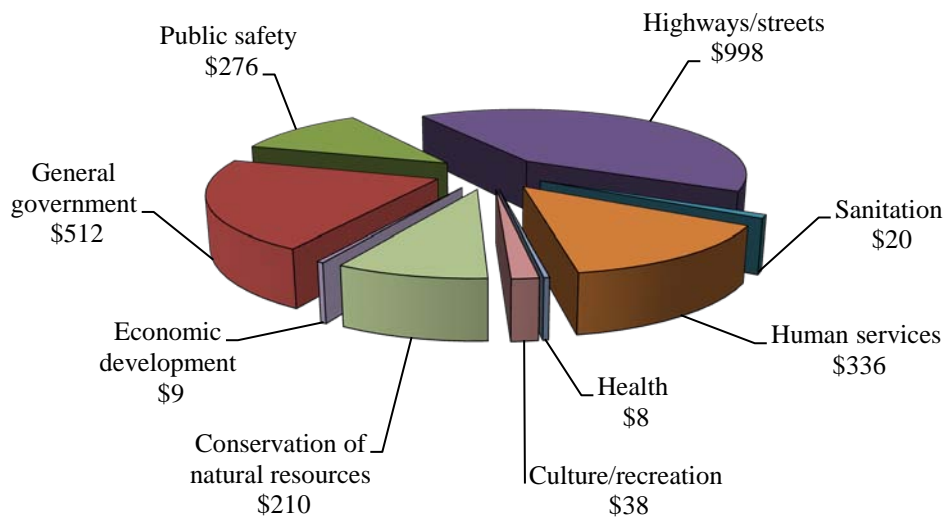
## Expenses by Function



## Program Revenues & Expenses



## Expenditures Per Capita 4,552 Population as of the 2010 Census



## **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, unreserved 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 2011, the County's governmental funds reported combined ending fund balances of \$8,228,143. Of this amount, approximately five percent constitutes non-spendable fund balance, 19 percent constitutes legally or contractually restricted fund balance, 30 percent constitutes formally committed fund balance, 19 percent constitutes specifically assigned fund balance, and 27 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 \$5,523,759. The General Fund's non-spendable fund balance was \$68,245, restricted fund balance was \$721,982, committed fund balance was \$2,112,169, and unassigned fund balance was \$2,621,363. 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 2011. Unrestricted fund balance represents 133 percent of total General Fund expenditures, while total fund balance represents 155 percent of that same amount.

In 2011, the fund balance amount in the General Fund decreased by \$19,457, primarily due to building remodeling projects.

The fund balance of the Road and Bridge Special Revenue Fund decreased by \$579,295 in 2011, due to an increase in fuel costs, contract overruns and purchases of machinery and equipment.

The fund balance of the Social Services Special Revenue Fund decreased \$28,243 from the prior year due to an increase in out-of-home placements.

The fund balance of the Ditch Special Revenue Fund decreased \$126,143 from the prior year due to unexpected ditch repair projects.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

The budget amendments in 2011 consisted of an overall decrease in budgeted revenues of \$7,500 and an overall increase in budgeted expenditures of \$325,786. Actual revenues were more than overall final budgeted revenues by \$118,523, with the largest positive variance in miscellaneous revenue. Actual expenditures were less than overall final budgeted expenditures by \$233,594 as a result of most departments operating within budgeted expenditures.

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

#### **Capital Assets**

The County's investment in capital assets for its governmental activities as of December 31, 2011, amounted to \$52,483,930 (net of accumulated depreciation). The total increase in the County's investment in capital assets for the current fiscal year was approximately three percent. This was primarily due to the ongoing construction of highway projects and completed projects added to infrastructure.

	Governmental Activities	
	2011	2010
Land	\$ 190,821	\$ 190,821
Construction in progress	1,202,956	329,227
Infrastructure	49,477,710	49,163,128
Buildings and improvements	692,010	529,724
Machinery and equipment	920,433	830,717
<b>Total capital assets</b>	<b>\$ 52,483,930</b>	<b>\$ 51,043,617</b>

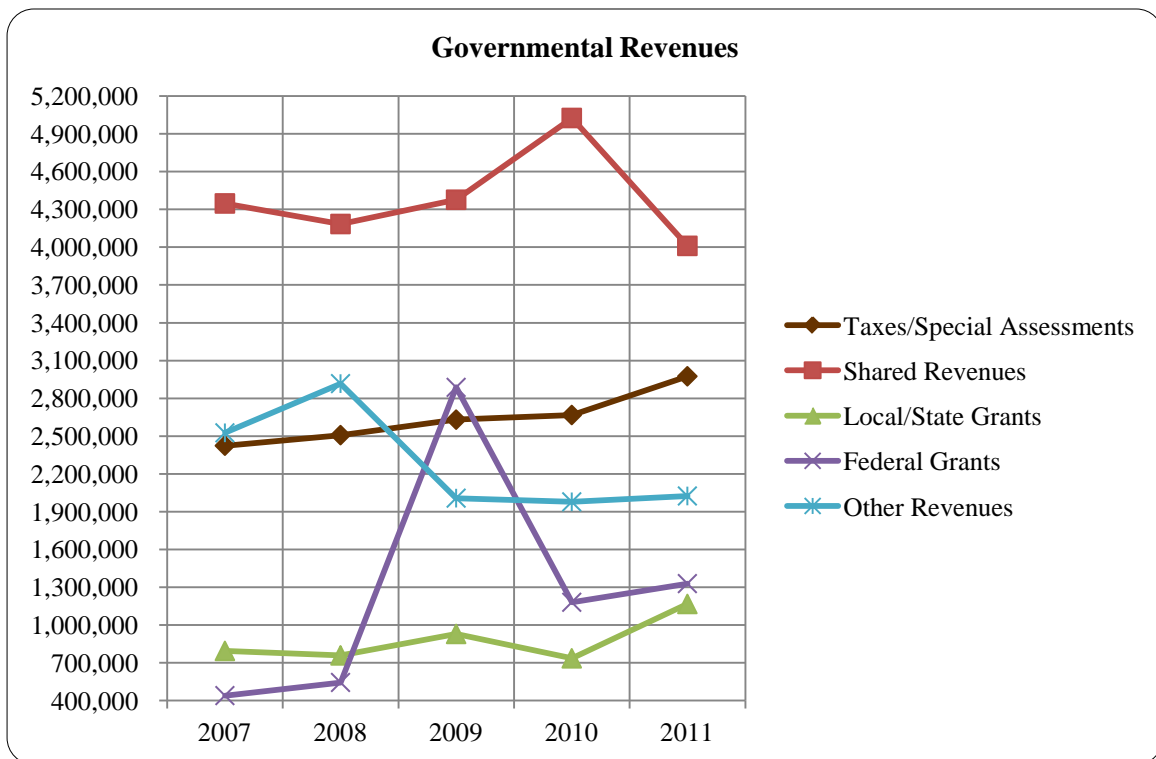
Additional information on the County’s capital assets can be found in the notes to the financial statements.

### 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 6.0 percent as of December, 2011. This is slightly higher than the statewide rate of 5.7 percent and lower than the national average rate of 8.3 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. Standard & Poor's has also affirmed its "AAA" enhanced program rating.
- Kittson County's 2010 population was 4,552, a decline of 733 since the 2000 census of 5,285.
- On December 8, 2011, Kittson County set its 2012 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 Auditor/Treasurer, Kittson County Courthouse, 410 Fifth Street South, Suite 214, Hallock, MN 56728.

## **BASIC FINANCIAL STATEMENTS**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

	<b>Primary Government Governmental Activities</b>	<b>Discretely Presented Component Unit</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 7,807,968	\$ 148,629
Investments	190,000	-
Taxes receivable - prior	58,599	-
Special assessments receivable - prior	1,087	-
Accounts receivable	32,047	50,012
Accrued interest receivable	27,499	4,701
Due from other governments	1,590,970	613
Inventories	355,873	-
Restricted assets		
Cash and pooled investments	-	64,356
Cash with escrow agent	-	923,969
Investments	-	70,000
Special assessments receivable		
Current	-	64,225
Prior	-	16,075
Due from other governments	-	639,000
Pooled investments reserved for asset replacement	-	983,015
Surcharge receivable reserved for debt repayment	-	6,380
Deferred debt issuance costs	-	25,037
Special assessments receivable - noncurrent	-	756,889
Capital assets		
Non-depreciable	1,393,777	108,045
Depreciable - net of accumulated depreciation	51,090,153	10,161,744
<b>Total Assets</b>	<b>\$ 62,547,973</b>	<b>\$ 14,022,690</b>
<b><u>Liabilities</u></b>		
Accounts payable	\$ 162,018	\$ 10,093
Salaries payable	184,825	-
Accrued payroll taxes	-	4,140
Contracts payable	312,596	-
Due to other governments	61,337	1,677
Accrued interest payable	-	9,352
Customer deposits	-	11,115
Payable from restricted assets		
General obligation bonds - current	-	125,000
Long-term liabilities		
Due within one year	153,269	10,539
Due in more than one year	515,090	2,070,569
<b>Total Liabilities</b>	<b>\$ 1,389,135</b>	<b>\$ 2,242,485</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

***EXHIBIT 1  
(Continued)***

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

	<b>Primary Government Governmental Activities</b>	<b>Discretely Presented Component Unit</b>
<u><b>Net Assets</b></u>		
Invested in capital assets, net of related debt	\$ 52,483,930	\$ 9,157,306
Restricted for		
General government	311,340	-
Public safety	397,290	-
Highways and streets	1,218,084	-
Conservation of natural resources	296,121	-
Equipment replacement	-	983,015
Debt service	-	134,356
Unrestricted	6,452,073	1,505,528
<b>Total Net Assets</b>	<b>\$ 61,158,838</b>	<b>\$ 11,780,205</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Expenses	Fees, Charges, Fines and Other	Program Revenues Operating Grants and Contributions
<b><u>Functions/Programs</u></b>			
<b>Primary Government</b>			
<b>Governmental activities</b>			
General government	\$ 2,332,270	\$ 713,252	\$ 3,600
Public safety	1,257,162	39,220	355,693
Highways and streets	4,543,758	707,382	1,745,448
Sanitation	89,076	28,701	196,950
Human services	1,530,003	243,171	699,816
Health	38,251	1,411	37,552
Culture and recreation	171,944	-	106,093
Conservation of natural resources	955,233	140,028	548,848
Economic development	42,800	-	-
<b>Total Primary Government</b>	<b>\$ 10,960,497</b>	<b>\$ 1,873,165</b>	<b>\$ 3,694,000</b>
<b>Component Unit</b>			
North Kittson Rural Water System	\$ 680,399	\$ 534,719	\$ -

**General revenues**

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

**Total general revenues**

**Change in net assets**

**Net assets - January 1**

**Net assets - December 31**

**EXHIBIT 2**

Net (Expense) Revenue and Changes in Net Assets		
Capital Grants and Contributions	Primary Government Governmental Activities	Discretely Presented Component Unit
\$ -	\$ (1,615,418)	\$ -
-	(862,249)	-
2,855,194	764,266	-
-	136,575	-
-	(587,016)	-
-	712	-
-	(65,851)	-
-	(266,357)	-
-	(42,800)	-
<b>\$ 2,855,194</b>	<b>\$ (2,538,138)</b>	<b>\$ -</b>
<b>\$ 96,764</b>	<b>\$ -</b>	<b>\$ (48,916)</b>
	\$ 2,838,727	\$ -
	300,433	-
	154,285	-
	115,429	-
	165,950	-
	<b>\$ 3,574,824</b>	<b>\$ -</b>
	<b>\$ 1,036,686</b>	<b>\$ (48,916)</b>
	<b>60,122,152</b>	<b>11,829,121</b>
	<b>\$ 61,158,838</b>	<b>\$ 11,780,205</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011**

	General Fund	Special Revenue Funds			Other Governmental Funds (Statement 1)	Total Governmental Funds
		Road and Bridge	Social Services	Ditch		
<b><u>Assets</u></b>						
Cash and pooled investments	\$ 5,330,019	\$ 81,462	\$ 1,756,651	\$ 482,017	\$ 157,819	\$ 7,807,968
Investments	150,000	-	40,000	-	-	190,000
Taxes receivable - prior	40,394	7,126	10,579	-	500	58,599
Special assessments receivable - prior	-	-	-	1,087	-	1,087
Accounts receivable	3,297	10,772	17,978	-	-	32,047
Accrued interest receivable	27,477	-	22	-	-	27,499
Due from other funds	-	7,733	-	-	972	8,705
Due from other governments	121,996	1,220,537	62,961	107,492	77,984	1,590,970
Inventories	-	355,873	-	-	-	355,873
Advances to other funds	68,245	-	-	-	-	68,245
<b>Total Assets</b>	<b>\$ 5,741,428</b>	<b>\$ 1,683,503</b>	<b>\$ 1,888,191</b>	<b>\$ 590,596</b>	<b>\$ 237,275</b>	<b>\$ 10,140,993</b>
<b><u>Liabilities and Fund Balances</u></b>						
<b>Liabilities</b>						
Accounts payable	\$ 65,145	\$ 20,802	\$ 75,001	\$ 1,070	\$ -	\$ 162,018
Salaries payable	101,802	52,568	30,455	-	-	184,825
Contracts payable	-	191,677	-	120,919	-	312,596
Due to other funds	-	972	-	6,347	1,386	8,705
Due to other governments	26,240	1,798	13,962	19,162	175	61,337
Deferred revenue - unavailable	24,482	913,597	6,525	92,084	78,436	1,115,124
Advances from other funds	-	-	-	68,245	-	68,245
<b>Total Liabilities</b>	<b>\$ 217,669</b>	<b>\$ 1,181,414</b>	<b>\$ 125,943</b>	<b>\$ 307,827</b>	<b>\$ 79,997</b>	<b>\$ 1,912,850</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011**

	General Fund	Special Revenue Funds			Other Governmental Funds (Statement 1)	Total Governmental Funds
		Road and Bridge	Social Services	Ditch		
<b>Fund Balances</b>						
Non-spendable						
Advances to other funds	\$ 68,245	\$ -	\$ -	\$ -	\$ -	\$ 68,245
Inventory	-	355,873	-	-	-	355,873
Restricted for						
Conservation of natural resources	-	-	-	282,769	-	282,769
Corrections supervision	4,246	-	-	-	-	4,246
County State Aid Highway Allotment	-	307,749	-	-	-	307,749
DWI assessment	4,895	-	-	-	-	4,895
Enhanced 911	375,706	-	-	-	-	375,706
Forfeited land	-	-	-	-	1	1
Handgun permits	6,748	-	-	-	-	6,748
Help America Vote Act	140,583	-	-	-	-	140,583
Law library	4,956	-	-	-	-	4,956
Missing heirs	1,067	-	-	-	-	1,067
Pit restoration	-	86,198	-	-	-	86,198
Probation	1,640	-	-	-	-	1,640
Public assistance - highways and streets	-	126,840	-	-	38,503	165,343
Recorder's equipment	75,353	-	-	-	-	75,353
Sheriff's forfeited property	2,991	-	-	-	-	2,991
Sheriff's contingent fund	488	-	-	-	-	488
Technology	89,381	-	-	-	-	89,381
Victim assistance	576	-	-	-	-	576
Water planning	13,352	-	-	-	-	13,352
Committed to						
Buildings	478,400	-	200,000	-	-	678,400
Capital purchases	150,000	-	30,000	-	-	180,000
Data processing	280,490	-	100,000	-	-	380,490
E-911 road signs	179,049	-	-	-	-	179,049
Geographic Information System	143,407	-	-	-	-	143,407
Insurance	600,000	-	-	-	-	600,000
Landfill	271,120	-	-	-	-	271,120
Local Emergency Planning Commission	9,703	-	-	-	-	9,703
Assigned to						
Debt service	-	-	-	-	8,894	8,894
Social services	-	-	1,432,248	-	-	1,432,248
Unorganized townships	-	-	-	-	110,056	110,056
Unassigned	2,621,363	(374,571)	-	-	(176)	2,246,616
<b>Total Fund Balances</b>	<b>\$ 5,523,759</b>	<b>\$ 502,089</b>	<b>\$ 1,762,248</b>	<b>\$ 282,769</b>	<b>\$ 157,278</b>	<b>\$ 8,228,143</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,741,428</b>	<b>\$ 1,683,503</b>	<b>\$ 1,888,191</b>	<b>\$ 590,596</b>	<b>\$ 237,275</b>	<b>\$ 10,140,993</b>



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2011**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>8,228,143</b>
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		52,483,930
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		1,115,124
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Compensated absences payable	\$ (377,665)	
Other post employment benefits	(290,694)	(668,359)
<b>Net assets of governmental activities (Exhibit 1)</b>	<b>\$</b>	<b><u>61,158,838</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, 2011**

	General Fund	Special Revenue Funds			Other Government Funds (Statement 2)	Total Governmental Funds
		Road and Bridge	Social Services	Ditch		
<b>Revenues</b>						
Taxes	\$ 1,985,360	\$ 345,889	\$ 495,452	\$ -	\$ 51,457	\$ 2,878,158
Special assessments	-	-	-	96,871	-	96,871
Licenses and permits	5,714	-	-	-	-	5,714
Intergovernmental	1,101,364	4,139,222	749,310	463,947	53,444	6,507,287
Charges for services	158,926	557,418	185,083	38,073	-	939,500
Fines and forfeitures	4,437	-	-	-	-	4,437
Investment earnings	165,542	-	408	-	-	165,950
Land and timber sales	-	-	-	-	5,165	5,165
Miscellaneous	152,769	116,187	58,088	-	577,024	904,068
<b>Total Revenues</b>	<b>\$ 3,574,112</b>	<b>\$ 5,158,716</b>	<b>\$ 1,488,341</b>	<b>\$ 598,891</b>	<b>\$ 687,090</b>	<b>\$ 11,507,150</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	\$ 1,610,197	\$ -	\$ -	\$ -	\$ 625,600	\$ 2,235,797
Public safety	1,156,992	-	-	-	4,789	1,161,781
Highways and streets	-	5,452,762	-	-	127,749	5,580,511
Sanitation	88,166	-	-	-	-	88,166
Human services	-	-	1,516,584	-	-	1,516,584
Health	38,251	-	-	-	-	38,251
Culture and recreation	171,944	-	-	-	-	171,944
Conservation of natural resources	228,697	-	-	723,798	14,313	966,808
Economic development	42,800	-	-	-	-	42,800
<b>Total Current</b>	<b>\$ 3,337,047</b>	<b>\$ 5,452,762</b>	<b>\$ 1,516,584</b>	<b>\$ 723,798</b>	<b>\$ 772,451</b>	<b>\$ 11,802,642</b>
<b>Debt Service</b>						
Interest	\$ -	\$ -	\$ -	\$ 1,236	\$ -	\$ 1,236
<b>Capital Outlay</b>						
General government	\$ 147,712	\$ -	\$ -	\$ -	\$ -	\$ 147,712
Public safety	76,782	-	-	-	-	76,782
Highways and streets	-	396,241	-	-	-	396,241
<b>Total Capital Outlay</b>	<b>\$ 224,494</b>	<b>\$ 396,241</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 620,735</b>
<b>Total Expenditures</b>	<b>\$ 3,561,541</b>	<b>\$ 5,849,003</b>	<b>\$ 1,516,584</b>	<b>\$ 725,034</b>	<b>\$ 772,451</b>	<b>\$ 12,424,613</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 12,571</b>	<b>\$ (690,287)</b>	<b>\$ (28,243)</b>	<b>\$ (126,143)</b>	<b>\$ (85,361)</b>	<b>\$ (917,463)</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, 2011**

	General Fund	Special Revenue Funds			Other Government Funds (Statement 2)	Total Governmental Funds
		Road and Bridge	Social Services	Ditch		
<b>Other Financing Sources (Uses)</b>						
Transfers in	\$ -	\$ 18,662	\$ -	\$ -	\$ 13,366	\$ 32,028
Transfers out	(32,028)	-	-	-	-	(32,028)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (32,028)</b>	<b>\$ 18,662</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 13,366</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ (19,457)</b>	<b>\$ (671,625)</b>	<b>\$ (28,243)</b>	<b>\$ (126,143)</b>	<b>\$ (71,995)</b>	<b>\$ (917,463)</b>
<b>Fund Balance - January 1</b>	<b>5,543,216</b>	<b>1,081,384</b>	<b>1,790,491</b>	<b>408,912</b>	<b>229,273</b>	<b>9,053,276</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>92,330</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>92,330</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,523,759</b>	<b>\$ 502,089</b>	<b>\$ 1,762,248</b>	<b>\$ 282,769</b>	<b>\$ 157,278</b>	<b>\$ 8,228,143</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ (917,463)**

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	\$ 3,061,385	
Current year depreciation	(1,621,072)	1,440,313

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 revenue		490,033
----------------------------	--	---------

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	\$ (833)	
Other post employment benefits	(67,694)	
Inventories	92,330	23,803

**Change in net assets of governmental activities (Exhibit 2) \$ 1,036,686**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 7**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2011**

	<b>Mar-Kit Landfill Investment Trust</b>	<b>Agency (Statement 3)</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ -	\$ 1,727,766
Investments	800,000	-
Accrued interest receivable	863	-
<b>Total Assets</b>	<b>\$ 800,863</b>	<b>\$ 1,727,766</b>
<b><u>Liabilities</u></b>		
Accounts payable	\$ -	\$ 81,669
Accrued interest payable	863	-
Due to other governments	-	1,646,097
<b>Total Liabilities</b>	<b>\$ 863</b>	<b>\$ 1,727,766</b>
<b><u>Net Assets</u></b>		
Net assets, held in trust for pool participants	<b>\$ 800,000</b>	

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 8**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
MAR-KIT LANDFILL INVESTMENT TRUST FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b><u>Additions</u></b>	
Investment earnings		\$ 9,013
	<b><u>Deductions</u></b>	
Distributions to participants		<u>9,013</u>
<b>Change in net assets</b>		<b>\$ -</b>
<b>Net Assets--January 1</b>		<b><u>800,000</u></b>
<b>Net Assets--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, 2011

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). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. 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 Auditor/Treasurer, elected on a County-wide basis, 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 Auditor'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 V, subdivisions D, E, and F, 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 assets 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 assets, 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 assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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.

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 Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2011, 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 2011 were \$162,471. Total investment earnings for 2011 were \$165,950.

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 assets 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 Assets 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. 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 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.

7. Deferred Revenue

Governmental funds and the government-wide financial statements defer revenue recognition in connection with resources that have been received, but not yet earned. Governmental funds also defer revenue recognition in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

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

8. Net Assets and Fund Balance

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

In the fund financial statements and in accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, 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.

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.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

8. Net Assets and Fund Balance (Continued)

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

II. Stewardship, Compliance, and Accountability

A. Individual Fund Deficits of Equity Accounts

Ditch Special Revenue Fund

Five of the 36 active ditch systems incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following shows the restricted fund balances as of December 31, 2011:

Account balance	\$ 426,892
Account deficit	<u>(144,123)</u>
Fund Balance	<u><u>\$ 282,769</u></u>

Forfeited Tax Sale Special Revenue Fund

At December 31, 2011, the Forfeited Tax Sale Special Revenue Fund had a deficit unassigned fund balance of \$(176), with a total deficit fund balance of \$(175). This deficit will be eliminated with future forfeited land proceeds.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

II. Stewardship, Compliance, and Accountability

A. Individual Fund Deficits of Equity Accounts (Continued)

Road and Bridge Special Revenue Fund

At December 31, 2011, the Road and Bridge Special Revenue Fund had a deficit unassigned fund balance of \$(374,571), with a total fund balance of \$502,089. This deficit will be eliminated with future levies.

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.

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliations of the County's total deposits and investments to the basic financial statements, as of December 31, 2011, are reported as follows:

	Primary Government	Discretely Presented Component Unit
Government-wide statement of net assets		
Cash and pooled investments	\$ 7,807,968	\$ 148,629
Investments	190,000	-
Restricted		
Cash and pooled investments	-	64,356
Cash with escrow agent	-	923,969
Investments	-	70,000
Pooled investments reserved for asset replacement	-	983,015
Statement of fiduciary net assets		
Cash and pooled investments	1,727,766	-
Investments	800,000	-
Total cash and investments	\$ 10,525,734	\$ 2,189,969
Deposits	\$ 3,292,507	\$ 2,189,969
Cash on hand	1,800	-
Investments	7,231,427	-
Total deposits, cash on hand, and investments	\$ 10,525,734	\$ 2,189,969

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. 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, 2011, the County's deposits were not exposed to custodial credit risk. As of December 31, 2011, \$67,301 of the discretely presented component unit's bank balance of \$908,242 was exposed to custodial credit risk due to being uninsured and uncollateralized.

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**

III. 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, 2011, 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	\$ 850,604	\$ -	\$ -	\$ 850,604
Federal Home Loan Mortgage Corporation	1,091,676	-	-	1,091,676
Federal National Mortgage Association	1,870,054	-		1,870,054
Negotiable Certificates of Deposit	2,549,157	1,198,256	1,350,901	-
Money Market	780,331	780,331	-	-
Tennessee Valley Authority Power Bonds	<u>89,605</u>	<u>-</u>	<u>-</u>	<u>89,605</u>
Total Investments	<u>\$ 7,231,427</u>	<u>\$ 1,978,587</u>	<u>\$ 1,350,901</u>	<u>\$ 3,901,939</u>
	100%	27%	19%	54%

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, 2011, is as follows:



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments

Credit Risk (Continued)

	<u>Moody's Rating</u>	<u>Fair Value</u>
Federal Home Loan Bank	AAA	\$ 850,604
Federal Home Loan Mortgage Corporation	AAA	1,091,676
Federal National Mortgage Association	AAA	1,870,054
Negotiable Certificates of Deposit	N/A	2,549,157
Money Market	N/A	780,331
Tennessee Valley Authority Power Bonds	N/R	89,605
		<u>\$ 7,231,427</u>

N/R – not rated

N/A – not applicable

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2011, none of the County's investments were subject to custodial credit risk.

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

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	\$ 850,604	12%
Federal Home Loan Mortgage Corporation	1,091,676	15%
Federal National Mortgage Association	1,870,054	26%

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2011, for the County's governmental activities, including any applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>
Taxes	\$ 58,599
Special assessments	1,087
Accounts	32,047
Accrued interest	27,499
Due from other governments	1,590,970
Total	\$ 1,710,202

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

Receivables as of December 31, 2011, 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	\$ 50,012	\$ -
Accrued interest	4,701	-
Due from other governments	613	-
Restricted		
Special assessments	837,189	756,889
Due from other governments	639,000	-
Surcharge - reserved for debt repayment	6,380	-
Total	\$ 1,537,895	\$ 756,889

3. Capital Assets

Capital asset activity for the primary government for the year ended December 31, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 190,821	\$ -	\$ -	\$ 190,821
Construction in progress	329,227	2,486,811	1,613,082	1,202,956
Total capital assets not depreciated	\$ 520,048	\$ 2,486,811	\$ 1,613,082	\$ 1,393,777
Capital assets being depreciated				
Infrastructure	\$ 64,668,877	\$ 1,567,809	\$ -	\$ 66,236,686
Buildings and improvements	2,318,379	230,388	-	2,548,767
Machinery and equipment	4,260,323	389,459	323,482	4,326,300
Total capital assets being depreciated	\$ 71,247,579	\$ 2,187,656	\$ 323,482	\$ 73,111,753

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Less: accumulated depreciation for				
Infrastructure	\$ 15,505,749	\$ 1,253,227	\$ -	\$ 16,758,976
Buildings and improvements	1,788,655	68,102	-	1,856,757
Machinery and equipment	3,429,606	299,743	323,482	3,405,867
 Total accumulated depreciation	 \$ 20,724,010	 \$ 1,621,072	 \$ 323,482	 \$ 22,021,600
 Total capital assets, depreciated, net	 \$ 50,523,569	 \$ 566,584	 \$ -	 \$ 51,090,153
 Primary Government Capital Assets, Net	 \$ 51,043,617	 \$ 3,053,395	 \$ 1,613,082	 \$ 52,483,930

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

General government	\$ 69,716
Public safety	72,643
Highways and streets, including depreciation of infrastructure assets	1,465,811
Sanitation	760
Human services	12,142
 Total Depreciation Expense	 \$ 1,621,072

Capital asset activity for the discretely presented component unit for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 108,045	\$ -	\$ -	\$ 108,045
Construction in progress	419,612	31,045	450,657	-
 Total capital assets not depreciated	 \$ 527,657	 \$ 31,045	 \$ 450,657	 \$ 108,045
Capital assets being depreciated				
Distribution system	\$ 10,002,723	\$ 20,419	\$ -	\$ 10,023,142
Buildings and pumps	3,725,261	450,657	-	4,175,918
Machinery and equipment	150,402	51,578	9,483	192,497
Tower reconditioning	285,748	-	36,700	249,048
 Total capital assets being depreciated	 \$ 14,164,134	 \$ 522,654	 \$ 46,183	 \$ 14,640,605

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Less: accumulated depreciation for				
Distribution system	\$ 2,532,676	\$ 115,963	\$ -	\$ 2,648,639
Buildings and pumps	1,543,494	98,486	-	1,641,980
Machinery and equipment	124,172	8,180	9,483	122,869
Tower reconditioning	89,621	12,452	36,700	65,373
Total accumulated depreciation	\$ 4,289,963	\$ 235,081	\$ 46,183	\$ 4,478,861
Total capital assets, depreciated, net	\$ 9,874,171	\$ 287,573	\$ -	\$ 10,161,744
Component Unit				
Capital Assets, Net	\$ 10,401,828	\$ 318,618	\$ 450,657	\$ 10,269,789

\$235,081 of depreciation expense was charged to the functions of the Rural Water System.

Construction Commitments

The County has no active construction commitments as of December 31, 2011.

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2011, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
Road and Bridge Special Revenue Fund	Ditch Special Revenue Fund	\$ 6,347	Charges for services
	Other Governmental	1,386	Charges for services
Total due to Road and Bridge Special Revenue Fund		\$ 7,733	
Other Governmental	Road and Bridge Special Revenue Fund	972	Reclassification of funds
Total Due To/From Other Funds		\$ 8,705	

Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount	
General Fund	Ditch Special Revenue Fund	\$ 68,245	Cash flow

This advance will be paid back as funds become available.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

Interfund transfers for the year ended December 31, 2011, consisted of the following operating transfers:

Transfer to Road and Bridge Special Revenue Fund from General Fund	\$ 18,662	Operations
Transfer to Other Governmental from General Fund	<u>13,366</u>	Operations
Total Interfund Transfers	<u><u>\$ 32,028</u></u>	

C. Liabilities

Deferred Revenue

Governmental Funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. As of December 31, 2011, Governmental Funds reported the following various components of deferred revenues:

	<u>Deferred Unavailable</u>
Taxes	\$ 36,027
Special Assessments	158
Grants	451,566
Contracts	<u>627,373</u>
Total Deferred Revenue	<u><u>\$ 1,115,124</u></u>

Compensated Absences

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

Unused compensatory time, accumulated vacation and vested sick leave are paid to employees upon termination. Unvested sick leave, approximately \$340,851 at December 31, 2011, is available to employees in the event of illness-related absences and is not paid to them at termination.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities (Continued)

Changes in Long-Term Liabilities

Long-term liability for activity for the governmental activities for the year ended December 31, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Net OPEB Payable	\$ 223,000	\$ 91,663	\$ 23,969	\$ 290,694	\$ -
Compensated Absences	376,832	216,558	215,725	377,665	153,269
Long-Term Liabilities	<u>\$ 599,832</u>	<u>\$ 308,221</u>	<u>\$ 239,694</u>	<u>\$ 668,359</u>	<u>\$ 153,269</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 represent debt incurred in 2011 to refund the General Obligation Rural Water System Revenue Refunding Bonds of 2004 on the January 1, 2013 crossover date.

The proceeds from the refunding were deposited into an escrow account maintained by Northland Trust Services, Inc. All bond proceeds deposited in the escrow account shall be used to pay issuance costs and to purchase securities bearing interest at such rates as to provide sufficient funds to pay the interest coming due on the General Obligation Water Revenue Crossover Refunding Bonds, Series 2011A through and including January 1, 2013, and to repay the 945,000 called principal amount of the General Obligation Water System Revenue Refunding Bonds of 2004.

The Water System will continue to pay the scheduled principal and interest payments on the General Obligation Rural Water System Refunding Bonds of 2004, including the payment due on the crossover date of January 1, 2013. On the crossover date, the \$945,000 refunded principal of the Rural Water System Revenue Refunding Bonds of 2004 will be paid in full by the escrow agent. The Water System will then be responsible for all debt service payments on the General Obligation Water Revenue Crossover Refunding Bonds, Series 2011A commencing with the July 1, 2013 interest payment.

The Water System will reduce its total debt service payments by \$50,013 and realize 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 \$5,658.

\$ 939,342

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

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

\$425,000 General Obligation Refunding Bonds of 2009 – dated July 1, 2009 due in installments of \$50,000 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 \$5,601.

274,399

\$1,475,000 General Obligation Refunding Bonds of 2004 – dated April 28, 2004 due in installments of \$70,000 to \$110,000 through January 1, 2022, with net interest rate of 4.387 percent. This debt is to refund general obligation bonds dated March 1994 which were scheduled to mature January 1, 2023. The new bonds were issued with a discount of \$14,750 and net issue costs of \$8,848. As a result of the advanced refunding, the Water System realized an economic gain of \$322,431 with a present value of \$74,392. This debt is reported net of unamortized bond discount of \$2,933.

957,067

Total Payable from North Kittson Rural Water System Component Unit

\$ 2,170,808

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		General Obligation Refunding Bonds of 2004	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ -	\$ 33,940	\$ 55,000	\$ 7,610	\$ 70,000	\$ 43,520
2013	85,000	23,959	50,000	6,510	70,000	40,895
2014	85,000	22,257	55,000	5,210	75,000	38,095
2015	90,000	20,557	55,000	3,780	75,000	34,944
2016	90,000	18,533	65,000	2,047	85,000	31,719
2017-2021	490,000	57,812	-	-	475,000	98,450
2022	105,000	3,307	-	-	110,000	5,500
	<u>\$ 945,000</u>	<u>\$ 180,365</u>	<u>\$ 280,000</u>	<u>\$ 25,157</u>	<u>\$ 960,000</u>	<u>\$ 293,123</u>
Less: Bond discount	<u>(5,658)</u>	<u>-</u>	<u>(5,601)</u>	<u>-</u>	<u>(2,933)</u>	<u>-</u>
Total	<u>\$ 939,342</u>	<u>\$ 180,365</u>	<u>\$ 274,399</u>	<u>\$ 25,157</u>	<u>\$ 957,067</u>	<u>\$ 293,123</u>

Changes in Long-Term Liabilities

Long-term liability activity for the discretely presented component unit for the year ended December 31, 2011, was as follows:

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt – Discretely Presented Component Unit

Changes in Long-Term Liabilities (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
G.O. Refunding Bonds	\$ 1,360,000	\$ -	\$ 120,000	\$ 1,240,000	\$ 125,000
G.O. Water Revenue Crossover Refunding Bonds, Series 2011A	-	945,000	-	945,000	-
Less: Bond discount	(9,920)	(5,658)	(1,386)	(14,192)	-
Compensated Absences	<u>35,830</u>	<u>17,931</u>	<u>18,461</u>	<u>35,300</u>	<u>10,539</u>
Long-Term Liabilities	<u>\$ 1,385,910</u>	<u>\$ 957,273</u>	<u>\$ 137,075</u>	<u>\$ 2,206,108</u>	<u>\$ 135,539</u>

IV. 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.



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Defined Benefit Plans

Plan Description (Continued)

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 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 2011. Public Employees Police and Fire Fund members were required to contribute 9.60 percent of their annual covered salary in 2011. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2011 and 2012:

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

The County's contributions for the years ending December 31, 2011, 2010, and 2009, 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
2011	\$ 142,699	\$ 57,249	\$ 19,826
2010	135,569	56,209	19,427
2009	131,807	56,461	18,130

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

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.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2011, were:

	Employee	Employer
Contribution amount	\$ 6,634	\$ 6,634
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.

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 2011, there were approximately 66 participants in the plan, including five 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.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

Annual Required Contribution	\$	93,567
Interest on net OPEB obligation		6,356
Adjustments to Annual Required Contribution		(8,260)
		(8,260)
Annual OPEB cost (expense)	\$	91,663
Contributions made		(23,969)
		(23,969)
Increase in net OPEB obligation	\$	67,694
Net OPEB Obligation - January 1, 2011		223,000
		223,000
Net OPEB Obligation - December 31, 2011	\$	290,694
		290,694

The County's annual OPEB cost for December 31, 2011, was \$91,663. The percentage of annual OPEB cost contributed to the plan was 26 percent, and the net OPEB obligation for 2011 was \$290,694. 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, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial liability for benefits was \$614,562, and the actuarial value of assets was zero, resulting in an unfunded actuarial liability (UAAL) of \$614,562. The covered payroll (annual payroll of active employees covered by the plan) was \$2,707,090, and the ratio of the UAAL to the covered payroll was 22.7 percent.

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

Methods and Assumptions

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

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits (OPEB)

Methods and Assumptions (Continued)

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 21.7 percent initially, decreased to a rate of 6.8 percent after six years, was used.

*Health insurance premiums* – 2011 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 2.85 percent investment rate of return (net of investment expense), which is Kittson County's implicit rate of return on the General Fund.

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

Based on the historical and expected returns of the County's short-term investment portfolio, a discount rate of 2.85 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, 2011, was twenty-six years.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

A. Special Assessment Debt with Government Commitment

On April 28, 2004, the County issued \$1,475,000 General Obligation Rural Water System Revenue Refunding Bonds for the North Kittson Rural Water System, the discretely presented component unit. These bonds are due in annual installments of \$70,000 to \$110,000 through January 1, 2022, with a net interest rate of 4.387 percent. As of December 31, 2011, the outstanding balance of this debt is \$957,067, net of bond discount, for which the Water System has a commitment of \$645,573 from Marshall County and the cities of Kennedy and Stephen.

These bonds will be refunded with the \$945,000 General Obligation Water Revenue Crossover Refunding Bonds, Series 2011A on the crossover date of January 1, 2013. As of December 31, 2011, the outstanding balance of the \$945,000 General Obligation Water Revenue Crossover Refunding Bonds, Series 2011A is \$939,342, net of bond discount, for which the Water System has a commitment of \$628,000 from Marshall County and the cities of Kennedy and Stephen.

B. 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.

C. 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 \$450,000 per claim in 2011 and \$460,000 per claim in 2012. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

C. Risk Management (Continued)

The Property and Casualty Division of MCIT is self-sustaining and the County pays an annual premium to cover current and future losses. The MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

D. 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, Mahnomon, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau counties. The purpose of the HSEM Region 3 Emergency Managers Joint Powers Board is to engage in planning, training, and/or the purchase of equipment in order to better respond to emergencies and natural and other disasters within HSEM Region 3; specifically within the jurisdictional boundaries of the member counties.

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

The HSEM Region 3 Emergency Managers Joint Powers Board has no long-term debt. Financing will be provided by a Homeland Security Grant Program and other grant programs and awards.

KaMaR Solid Waste

KaMaR Solid Waste was formed in 1990 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, effective August 1971, and includes Kittson, Marshall, and Roseau Counties. Red Lake County joined in January, 2005. The purpose of KaMaR is to provide recycling and other solid waste services to member counties. Control is vested in the KaMaR Solid Waste Joint Powers Board which is composed of three members from each county board, with each member county having one vote, as provided in KaMaR's bylaws.

Responsibility for budgeted expenditures is shared, with the first 50 percent divided equally among the four counties, and the remaining 50 percent divided on a population-based ratio, with an overall percentage division of 20 percent for Kittson County, 27 percent for Marshall County, 18 percent for Red Lake County, and 35 percent for Roseau County. In the event of dissolution of the KaMaR Solid Waste Joint Powers Board, the net assets of KaMaR at that time shall be divided among the member counties in the same proportion as their respective financial responsibilities.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures

KaMaR Solid Waste (Continued)

KaMaR has no long-term debt. Financing is provided by state grants and charges for services. Kittson County contributed \$16,484 to KaMaR for the year ended December 31, 2011. Roseau County, in an agent capacity, reports the cash transactions of KaMaR as an agency fund on its financial statements. Complete financial information can be obtained from the Roseau County Auditor's Office or the KaMaR office, Karlstad, Minnesota 56732.

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, 2011. Complete financial information can be obtained from the Kittson County Auditor/Treasurer's Office, P.O. Box 848, Hallock, Minnesota 56728.

Kittson-Marshall Rural Water System

The Kittson-Marshall Rural Water System was established pursuant to Minnesota Statutes, Chapter 116A, under the jurisdiction of the District Court. Kittson and Marshall Counties have agreed to guarantee their shares of the debt arising within each respective County. The Kittson-Marshall Rural Water System provides water for participating rural users and the City of Donaldson within the water district.

The Kittson-Marshall Rural Water System is governed by a seven-member board appointed by the county boards of Kittson and Marshall Counties under an order of the District Court.

Kittson County has issued General Obligation Refunding Bonds of 2001 to refinance the County's share of debt associated with the General Obligation Refunding Bonds of 1993. On behalf of Marshall County, Kittson County also issued \$142,460 of General Obligation Rural Water System Revenue Bonds of 1994. Complete financial statements of the Kittson-Marshall Rural Water System can be obtained from its administrative offices in Donaldson, Minnesota 56720.



**KITTSON COUNTY  
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. 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 Auditor/Treasurer'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, 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 Auditor/Treasurer'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, 2011. Complete financial information can be obtained from Greater Northwest Emergency Medical Services, 2301 Johanneson Avenue NW, Suite 103, Bemidji, Minnesota 56601.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

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

Control of the Association is vested in the Northwestern Counties Data Processing Security Association Joint Powers Board, which is composed of one county commissioner appointed by 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, 2011. 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**

V. Summary of Significant Contingencies and Other Items

D. 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 \$4,651 to the Waste Management Group for the year ended December 31, 2011. 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, the net assets of the Center shall be divided among the member counties in the same proportion as their respective financial responsibilities.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northwestern Minnesota Juvenile Center (Continued)

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 County did not make a contribution to the Williams Mobile Relay Station in 2011. Complete financial information can be obtained from the Lake of the Woods County Auditor's Office, P.O. Box 808, Baudette, Minnesota 56623.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

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

E. 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.

F. 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.

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  
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations (Continued)

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 2011, the County did not contribute to the Collaborative.

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, Mahnomon, 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.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations (Continued)

Northwest Minnesota Council of Collaboratives

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

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

Financing is provided by the collection of membership dues from the participating collaboratives and agency partners. Tri-County Community Corrections acts as fiscal agent for the Northwest Minnesota Council of Collaboratives and reports the cash transactions of the Council of Collaboratives as an agency fund in its financial statements. During 2011, 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.

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 \$57,411 to the Library for the year ended December 31, 2011.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

F. Jointly-Governed Organizations (Continued)

Northwest Workforce Service Area

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

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

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

Roseau River Watershed District

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



**REQUIRED SUPPLEMENTARY INFORMATION**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 2,000,008	\$ 2,000,008	\$ 1,985,360	\$ (14,648)
Licenses and permits	2,215	2,215	5,714	3,499
Intergovernmental	1,093,048	1,085,548	1,101,364	15,816
Charges for services	168,048	168,048	158,926	(9,122)
Fines and forfeitures	4,000	4,000	4,437	437
Investment earnings	151,200	151,200	165,542	14,342
Miscellaneous	44,570	44,570	152,769	108,199
<b>Total Revenues</b>	<b>\$ 3,463,089</b>	<b>\$ 3,455,589</b>	<b>\$ 3,574,112</b>	<b>\$ 118,523</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 174,300	\$ 173,731	\$ 181,282	\$ (7,551)
District court	10,200	27,200	27,444	(244)
Law library	4,500	7,400	4,465	2,935
County auditor/treasurer	414,583	417,893	416,402	1,491
County assessor	222,438	226,491	226,547	(56)
Elections	33,800	33,800	6,537	27,263
Professional services	23,828	23,828	20,037	3,791
Data processing	145,905	148,105	130,732	17,373
Attorney	75,519	81,444	80,565	879
Recorder	130,962	133,812	129,705	4,107
Buildings and grounds	113,495	257,595	238,711	18,884
GIS/LIS	66,206	66,206	23,768	42,438
Veterans service officer	27,992	30,187	29,679	508
Insurance	56,500	56,500	54,277	2,223
Other general government	48,454	54,954	40,046	14,908
<b>Total general government</b>	<b>\$ 1,548,682</b>	<b>\$ 1,739,146</b>	<b>\$ 1,610,197</b>	<b>\$ 128,949</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 1  
(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 608,019	\$ 744,871	\$ 680,058	\$ 64,813
Boat and water safety	500	500	-	500
Community corrections	179,683	192,118	194,397	(2,279)
Coroner	8,000	8,000	5,000	3,000
Enhanced 911	37,100	28,850	28,579	271
Emergency management	38,606	50,421	49,456	965
Fire protection	500	500	500	-
Local Emergency Planning Commission	1,000	1,000	1,044	(44)
Operation Stonegarden	143,094	130,221	125,853	4,368
Probation and parole	26,800	32,600	26,852	5,748
Safety committee	5,224	5,224	5,227	(3)
Transmission tower	3,450	5,300	4,866	434
Victim assistance	51,740	51,890	35,160	16,730
<b>Total public safety</b>	<b>\$ 1,103,716</b>	<b>\$ 1,251,495</b>	<b>\$ 1,156,992</b>	<b>\$ 94,503</b>
<b>Sanitation</b>				
Recycling	\$ 77,024	\$ 89,668	\$ 64,189	\$ 25,479
Solid waste	22,439	22,539	23,977	(1,438)
<b>Total sanitation</b>	<b>\$ 99,463</b>	<b>\$ 112,207</b>	<b>\$ 88,166</b>	<b>\$ 24,041</b>
<b>Health</b>				
Ambulance	\$ 29,068	\$ 29,068	\$ 29,068	\$ -
Hospice	7,500	7,500	7,500	-
Kittson wellness	1,700	1,700	1,683	17
<b>Total health</b>	<b>\$ 38,268</b>	<b>\$ 38,268</b>	<b>\$ 38,251</b>	<b>\$ 17</b>
<b>Culture and recreation</b>				
Historical society	\$ 50,395	\$ 50,395	\$ 50,395	\$ -
Regional library	57,411	57,411	57,411	-
Snowmobile and ski trails	106,065	63,700	63,638	62
Veterans organizations	500	500	500	-
<b>Total culture and recreation</b>	<b>\$ 214,371</b>	<b>\$ 172,006</b>	<b>\$ 171,944</b>	<b>\$ 62</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 1  
(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	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	\$ 9,501	\$ (1)
Agricultural society	22,500	22,500	22,500	-
County extension	101,588	117,070	112,844	4,226
Predator and weed control	3,500	3,500	1,625	1,875
Soil and water conservation	69,650	62,149	82,227	(20,078)
<b>Total conservation of natural resources</b>	<b>\$ 206,738</b>	<b>\$ 214,719</b>	<b>\$ 228,697</b>	<b>\$ (13,978)</b>
<b>Economic development</b>				
Kittson Office of Economic Development	\$ 40,000	\$ 40,000	\$ 40,000	\$ -
Minnesota Red River Valley Development Authority	1,200	1,200	1,200	-
Other economic development	-	1,600	1,600	-
<b>Total economic development</b>	<b>\$ 41,200</b>	<b>\$ 42,800</b>	<b>\$ 42,800</b>	<b>\$ -</b>
<b>Total Current Expenditures</b>	<b>\$ 3,252,438</b>	<b>\$ 3,570,641</b>	<b>\$ 3,337,047</b>	<b>\$ 233,594</b>
<b>Capital outlay</b>				
General government	\$ 140,129	\$ 147,712	\$ 147,712	\$ -
Public safety	76,782	76,782	76,782	-
<b>Total capital outlay</b>	<b>\$ 216,911</b>	<b>\$ 224,494</b>	<b>\$ 224,494</b>	<b>\$ -</b>
<b>Total Expenditures</b>	<b>\$ 3,469,349</b>	<b>\$ 3,795,135</b>	<b>\$ 3,561,541</b>	<b>\$ 233,594</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (6,260)</b>	<b>\$ (339,546)</b>	<b>\$ 12,571</b>	<b>\$ 352,117</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	(400)	(19,100)	(32,028)	(12,928)
<b>Net Change in Fund Balance</b>	<b>\$ (6,660)</b>	<b>\$ (358,646)</b>	<b>\$ (19,457)</b>	<b>\$ 339,189</b>
<b>Fund Balance - January 1</b>	<b>5,543,216</b>	<b>5,543,216</b>	<b>5,543,216</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,536,556</b>	<b>\$ 5,184,570</b>	<b>\$ 5,523,759</b>	<b>\$ 339,189</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 342,268	\$ 342,268	\$ 345,889	\$ 3,621
Intergovernmental	3,873,639	3,873,639	4,139,222	265,583
Charges for services	564,400	564,400	557,418	(6,982)
Miscellaneous	39,175	39,175	116,187	77,012
<b>Total Revenues</b>	<b>\$ 4,819,482</b>	<b>\$ 4,819,482</b>	<b>\$ 5,158,716</b>	<b>\$ 339,234</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 473,962	\$ 479,726	\$ 429,045	\$ 50,681
Engineering	244,876	317,931	313,537	4,394
Maintenance	1,065,256	1,859,831	1,816,018	43,813
Construction	2,194,000	1,801,700	1,952,581	(150,881)
Equipment maintenance and shop	455,007	546,543	534,650	11,893
Township roads	-	-	406,931	(406,931)
<b>Total current</b>	<b>\$ 4,433,101</b>	<b>\$ 5,005,731</b>	<b>\$ 5,452,762</b>	<b>\$ (447,031)</b>
<b>Capital outlay</b>				
Highways and streets	247,707	386,241	396,241	(10,000)
<b>Total Expenditures</b>	<b>\$ 4,680,808</b>	<b>\$ 5,391,972</b>	<b>\$ 5,849,003</b>	<b>\$ (457,031)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 138,674</b>	<b>\$ (572,490)</b>	<b>\$ (690,287)</b>	<b>\$ (117,797)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	18,662	18,662
<b>Net Change in Fund Balance</b>	<b>\$ 138,674</b>	<b>\$ (572,490)</b>	<b>\$ (671,625)</b>	<b>\$ (99,135)</b>
<b>Fund Balance - January 1</b>	<b>1,081,384</b>	<b>1,081,384</b>	<b>1,081,384</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>92,330</b>	<b>92,330</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,220,058</b>	<b>\$ 508,894</b>	<b>\$ 502,089</b>	<b>\$ (6,805)</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 503,415	\$ 503,415	\$ 495,452	\$ (7,963)
Intergovernmental	583,670	612,425	749,310	136,885
Charges for services	86,700	86,700	185,083	98,383
Investment earnings	750	750	408	(342)
Miscellaneous	65,360	65,360	58,088	(7,272)
<b>Total Revenues</b>	<b>\$ 1,239,895</b>	<b>\$ 1,268,650</b>	<b>\$ 1,488,341</b>	<b>\$ 219,691</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 368,074	\$ 469,809	\$ 441,676	\$ 28,133
Social services	860,821	1,057,620	1,041,169	16,451
Transportation	11,000	33,800	33,739	61
<b>Total Current Expenditures</b>	<b>\$ 1,239,895</b>	<b>\$ 1,561,229</b>	<b>\$ 1,516,584</b>	<b>\$ 44,645</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ (292,579)</b>	<b>\$ (28,243)</b>	<b>\$ 264,336</b>
<b>Fund Balance - January 1</b>	<b>1,790,491</b>	<b>1,790,491</b>	<b>1,790,491</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,790,491</b>	<b>\$ 1,497,912</b>	<b>\$ 1,762,248</b>	<b>\$ 264,336</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 4*

**BUDGETARY COMPARISON SCHEDULE  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Special assessments	\$ 95,500	\$ 95,500	\$ 96,871	\$ 1,371
Intergovernmental	-	-	463,947	463,947
Charges for services	-	-	38,073	38,073
<b>Total Revenues</b>	<b>\$ 95,500</b>	<b>\$ 95,500</b>	<b>\$ 598,891</b>	<b>\$ 503,391</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Administration	\$ 4,619	\$ 4,619	\$ 4,619	\$ -
Maintenance and repairs	90,101	600,611	719,179	(118,568)
<b>Total conservation of natural resources</b>	<b>\$ 94,720</b>	<b>\$ 605,230</b>	<b>\$ 723,798</b>	<b>\$ (118,568)</b>
<b>Debt service</b>				
Interest	780	780	1,236	(456)
<b>Total Expenditures</b>	<b>\$ 95,500</b>	<b>\$ 606,010</b>	<b>\$ 725,034</b>	<b>\$ (119,024)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ (510,510)</b>	<b>\$ (126,143)</b>	<b>\$ 384,367</b>
<b>Fund Balance - January 1</b>	<b>408,912</b>	<b>408,912</b>	<b>408,912</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 408,912</b>	<b>\$ (101,598)</b>	<b>\$ 282,769</b>	<b>\$ 384,367</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

Schedule 5

**SCHEDULE OF FUNDING PROGRESS  
OTHER POST-EMPLOYMENT BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**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, 2009	\$ -	\$ 835,595	\$ 835,595	-	\$ 2,648,094	31.6%
January 1, 2010	-	395,552	395,552	-	2,678,254	14.8%
January 1, 2011	-	614,562	614,562	-	2,707,090	22.7%



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 6**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS  
OTHER POST-EMPLOYMENT BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**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, 2009	\$ 105,438	\$ 18,995	18%	\$ 149,027
December 31, 2010	87,451	13,478	15%	223,000
December 31, 2011	91,663	23,969	26%	290,694

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

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 Auditor/Treasurer 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.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restrictions of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2011:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Commissioners	\$ 181,282	\$ 173,731	\$ (7,551)
District court	27,444	27,200	(244)
County assessor	226,547	226,491	(56)
Public safety			
Community corrections	194,397	192,118	(2,279)
Local Emergency Planning Commission	1,044	1,000	(44)
Safety committee	5,227	5,224	(3)
Sanitation			
Solid waste	23,977	22,539	(1,438)
Conservation of natural resources			
Agricultural inspection	9,501	9,500	(1)
Soil and water conservation	82,227	62,149	(20,078)
Road and Bridge Special Revenue Fund			
Highways and streets			
Construction	1,952,581	1,801,700	(150,881)
Township roads	406,931	-	(406,931)
Capital outlay			
Highways and streets	396,241	386,241	(10,000)

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

I. Budgetary Information

B. Excess of Expenditures Over Budget (Continued)

	Expenditures	Budget	Excess
Ditch Special Revenue Fund			
Conservation of natural resources			
Maintenance and repairs	\$ 719,179	\$ 600,611	\$ (118,568)
Debt service			
Interest	1,236	780	(456)

II. Other Post-Employment Benefits (OPEB)

Primary Government

For the year ended December 31, 2011, the composition of the population covered by the plan and the actuarial methods and assumptions used did not significantly differ; however, private insurance rates were significantly closer to the blended rates, resulting in a 13 percent decrease in the implicit rate subsidy as compared to 2009. Additional information can be found on Schedules 5 and 6 of this section and the Notes to the Financial Statements Section IV., Other Post-Employment Benefits.

**SUPPLEMENTARY INFORMATION**

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

**NONMAJOR GOVERNMENTAL FUNDS**

Special Revenue Funds

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 Government Commitment Special Revenue Fund is used to account for and report the proceeds of excess special assessments from the North Kittson and Kittson-Marshall Rural Water Systems. The proceeds are assigned to retire “points debt” issued by the County should the joint powers board assessments be insufficient to pay Kittson County’s commitment debt.

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 restricted for public assistance – highways and streets, and assigned to unorganized townships.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Statement 1**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2011**

	<u>Special Revenue Funds</u>			<u>Total Nonmajor Special Revenue Funds (Exhibit 3)</u>
	<u>Forfeited Tax Sale</u>	<u>Government Commitment</u>	<u>Unorganized Townships</u>	
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 8,894	\$ 148,925	\$ 157,819
Taxes receivable - prior	-	-	500	500
Due from other funds	-	-	972	972
Due from other governments	-	-	77,984	77,984
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 8,894</b>	<b>\$ 228,381</b>	<b>\$ 237,275</b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Due to other funds	\$ -	\$ -	\$ 1,386	\$ 1,386
Due to other governments	175	-	-	175
Deferred revenue - unavailable	-	-	78,436	78,436
<b>Total Liabilities</b>	<b>\$ 175</b>	<b>\$ -</b>	<b>\$ 79,822</b>	<b>\$ 79,997</b>
<b>Fund Balances</b>				
Restricted for				
Forfeited land	\$ 1	\$ -	\$ -	\$ 1
Public assistance - highways and streets	-	-	38,503	38,503
Assigned to				
Debt service	-	8,894	-	8,894
Unorganized townships	-	-	110,056	110,056
Unassigned	(176)	-	-	(176)
<b>Total Fund Balances</b>	<b>\$ (175)</b>	<b>\$ 8,894</b>	<b>\$ 148,559</b>	<b>\$ 157,278</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ -</b>	<b>\$ 8,894</b>	<b>\$ 228,381</b>	<b>\$ 237,275</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, 2011**

	Special Revenue Funds				Total Nonmajor Special Revenue Funds (Exhibit 5)
	Forfeited Tax Sale	Government Commitment	Health Insurance	Unorganized Townships	
<b>Revenues</b>					
Taxes	\$ -	\$ -	\$ -	\$ 51,457	\$ 51,457
Intergovernmental	-	-	-	53,444	53,444
Land and timber sales	5,165	-	-	-	5,165
Miscellaneous	-	-	577,024	-	577,024
<b>Total Revenues</b>	<b>\$ 5,165</b>	<b>\$ -</b>	<b>\$ 577,024</b>	<b>\$ 104,901</b>	<b>\$ 687,090</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ -	\$ -	\$ 625,600	\$ -	\$ 625,600
Public safety	-	-	-	4,789	4,789
Highways and streets	-	-	-	127,749	127,749
Conservation of natural resources	14,313	-	-	-	14,313
<b>Total Expenditures</b>	<b>\$ 14,313</b>	<b>\$ -</b>	<b>\$ 625,600</b>	<b>\$ 132,538</b>	<b>\$ 772,451</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (9,148)</b>	<b>\$ -</b>	<b>\$ (48,576)</b>	<b>\$ (27,637)</b>	<b>\$ (85,361)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	8,972	-	4,394	-	13,366
<b>Net Change in Fund Balance</b>	<b>\$ (176)</b>	<b>\$ -</b>	<b>\$ (44,182)</b>	<b>\$ (27,637)</b>	<b>\$ (71,995)</b>
<b>Fund Balance - January 1</b>	<b>1</b>	<b>8,894</b>	<b>44,182</b>	<b>176,196</b>	<b>229,273</b>
<b>Fund Balance - December 31</b>	<b>\$ (175)</b>	<b>\$ 8,894</b>	<b>\$ -</b>	<b>\$ 148,559</b>	<b>\$ 157,278</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 7*

**BUDGETARY COMPARISON SCHEDULE  
FORFEITED TAX SALE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<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	\$ 7,775	\$ 7,775	\$ 5,165	\$ (2,610)
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Forfeited land	<u>7,775</u>	<u>7,775</u>	<u>14,313</u>	<u>(6,538)</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (9,148)</b>	<b>\$ (9,148)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	<u>-</u>	<u>-</u>	<u>8,972</u>	<u>8,972</u>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (176)</b>	<b>\$ (176)</b>
<b>Fund Balance - January 1</b>	<u>1</u>	<u>1</u>	<u>1</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u><u>\$ 1</u></u>	<u><u>\$ 1</u></u>	<u><u>\$ (175)</u></u>	<u><u>\$ (176)</u></u>



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 8*

**BUDGETARY COMPARISON SCHEDULE  
GOVERNMENT COMMITMENT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Fund Balance - January 1</b>	\$ 8,894	\$ 8,894	\$ 8,894	\$ -
<b>Fund Balance - December 31</b>	\$ 8,894	\$ 8,894	\$ 8,894	\$ -

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 9*

**BUDGETARY COMPARISON SCHEDULE  
HEALTH INSURANCE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Miscellaneous	\$ 485,000	\$ 485,000	\$ 577,024	\$ 92,024
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Insurance	485,000	485,000	625,600	(140,600)
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (48,576)</b>	<b>\$ (48,576)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	4,394	4,394
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (44,182)</b>	<b>\$ (44,182)</b>
<b>Fund Balance - January 1</b>	<b>44,182</b>	<b>44,182</b>	<b>44,182</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 44,182</b>	<b>\$ 44,182</b>	<b>\$ -</b>	<b>\$ (44,182)</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 10*

**BUDGETARY COMPARISON SCHEDULE  
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 51,700	\$ 51,700	\$ 51,457	\$ (243)
Intergovernmental	26,200	26,200	53,444	27,244
<b>Total Revenues</b>	<b>\$ 77,900</b>	<b>\$ 77,900</b>	<b>\$ 104,901</b>	<b>\$ 27,001</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Public safety</b>				
Fire protection	\$ 4,950	\$ 4,950	\$ 4,789	\$ 161
<b>Highways and streets</b>				
Administration	\$ -	\$ -	\$ 88	\$ (88)
Township roads	101,500	101,500	127,661	(26,161)
<b>Total Expenditures</b>	<b>\$ 106,450</b>	<b>\$ 106,450</b>	<b>\$ 132,538</b>	<b>\$ (26,088)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (28,550)</b>	<b>\$ (28,550)</b>	<b>\$ (27,637)</b>	<b>\$ 913</b>
<b>Fund Balance - January 1</b>	<b>176,196</b>	<b>176,196</b>	<b>176,196</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 147,646</b>	<b>\$ 147,646</b>	<b>\$ 148,559</b>	<b>\$ 913</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**FIDUCIARY FUNDS**

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

Agency Funds

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

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

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

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

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

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

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

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

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Statement 3*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>AGENCY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 14,690	\$ 4,288,052	\$ 4,275,619	\$ 27,123
<b><u>Liabilities</u></b>				
Due to other governments	\$ 14,690	\$ 4,288,052	\$ 4,275,619	\$ 27,123
 <b><u>FLEXIBLE BENEFITS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 8,999	\$ 32,206	\$ 35,407	\$ 5,798
<b><u>Liabilities</u></b>				
Accounts payable	\$ 8,999	\$ 32,206	\$ 35,407	\$ 5,798
 <b><u>KITTSOON COUNTY CHILDREN'S COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 28,362	\$ 334	\$ 17,990	\$ 10,706
<b><u>Liabilities</u></b>				
Accounts payable	\$ 28,362	\$ 334	\$ 17,990	\$ 10,706
 <b><u>KITTSOON COUNTY ECONOMIC DEVELOPMENT AUTHORITY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 77,343	\$ 80,170	\$ 92,348	\$ 65,165
<b><u>Liabilities</u></b>				
Accounts payable	\$ 77,343	\$ 80,170	\$ 92,348	\$ 65,165

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Statement 3  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
 <b><u>KITTSOON-MARSHALL RURAL WATER SYSTEM</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 4,444	\$ 5,030	\$ 4,000	\$ 5,474
<b><u>Liabilities</u></b>				
Due to other governments	\$ 4,444	\$ 5,030	\$ 4,000	\$ 5,474
 <b><u>MAR-KIT LANDFILL</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,191,358	\$ 2,918,808	\$ 2,625,713	\$ 1,484,453
<b><u>Liabilities</u></b>				
Due to other governments	\$ 1,191,358	\$ 2,918,808	\$ 2,625,713	\$ 1,484,453
 <b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 19,863	\$ 1,696,843	\$ 1,701,962	\$ 14,744
<b><u>Liabilities</u></b>				
Due to other governments	\$ 19,863	\$ 1,696,843	\$ 1,701,962	\$ 14,744
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 171,544	\$ 8,170,970	\$ 8,228,211	\$ 114,303
<b><u>Liabilities</u></b>				
Due to other governments	\$ 171,544	\$ 8,170,970	\$ 8,228,211	\$ 114,303

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Statement 3  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>WATERSHED DITCH</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 9,796	\$ 20,976	\$ 30,772	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ 9,796	\$ 20,976	\$ 30,772	\$ -
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,526,399	\$ 17,213,389	\$ 17,012,022	\$ 1,727,766
<b><u>Liabilities</u></b>				
Accounts payable	\$ 114,704	\$ 112,710	\$ 145,745	\$ 81,669
Due to other governments	1,411,695	17,100,679	16,866,277	1,646,097
<b>Total Liabilities</b>	<b>\$ 1,526,399</b>	<b>\$ 17,213,389</b>	<b>\$ 17,012,022</b>	<b>\$ 1,727,766</b>

## **OTHER SCHEDULES**



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**BALANCE SHEET - BY DITCH  
DITCH SPECIAL REVENUE FUND  
DECEMBER 31, 2011**

	Assets			
	Cash and Pooled Investments	Special Assessments Receivable - Prior	Due from Other Governments	Total
<b>County Ditches</b>				
1	\$ 41,980	\$ -	\$ 6,544	\$ 48,524
4	23	121	6,396	6,540
8	5,024	-	-	5,024
9	11,403	-	-	11,403
11	10,529	-	-	10,529
12	13,168	-	-	13,168
13	188	-	-	188
14	8,788	-	-	8,788
15	11,895	-	-	11,895
16	43,225	575	179	43,979
17	12,672	-	-	12,672
18	6,870	19	-	6,889
19	18,257	-	162	18,419
20	5,707	-	-	5,707
21	1,630	-	-	1,630
22	20,599	-	1,170	21,769
23	5,859	-	-	5,859
25	4,393	-	8,511	12,904
26	20	-	18,655	18,675
27	26,761	-	619	27,380
28	4,660	-	500	5,160
29	15,438	-	745	16,183
30	5,927	-	-	5,927
31	15,052	-	-	15,052
33	4,334	-	-	4,334
<b>Joint County Ditches</b>				
31	9,683	36	-	9,719
32	3,014	-	-	3,014
33	12,075	-	-	12,075
<b>State Ditches</b>				
1	1,341	-	46,811	48,152
48R	6,958	2	320	7,280
50	2,688	-	-	2,688
72	33,557	-	11,337	44,894
84	19,126	123	-	19,249
85	30,699	-	-	30,699
90	7,938	126	2,348	10,412
95	60,536	85	3,195	63,816
<b>Total</b>	<b>\$ 482,017</b>	<b>\$ 1,087</b>	<b>\$ 107,492</b>	<b>\$ 590,596</b>

**Schedule 11**

<b>Liabilities</b>							<b>Fund Balances Restricted</b>	<b>Total Liabilities and Fund Balances</b>
<b>Accounts Payable</b>	<b>Due to Other Funds</b>	<b>Due to Other Governments</b>	<b>Contracts Payable</b>	<b>Deferred Revenue Unavailable</b>	<b>Advances from Other Funds</b>	<b>Total</b>		
\$ -	\$ -	\$ -	\$ -	\$ 6,544	\$ -	\$ 6,544	\$ 41,980	\$ 48,524
-	-	-	-	6,414	2,725	9,139	(2,599)	6,540
-	-	-	-	-	-	-	5,024	5,024
-	-	-	-	-	-	-	11,403	11,403
-	-	-	-	-	-	-	10,529	10,529
-	-	-	-	-	-	-	13,168	13,168
-	-	-	-	-	6,120	6,120	(5,932)	188
-	-	-	-	-	-	-	8,788	8,788
-	-	-	-	-	-	-	11,895	11,895
350	-	-	120,919	263	-	121,532	(77,553)	43,979
-	-	-	-	-	-	-	12,672	12,672
-	-	-	-	3	-	3	6,886	6,889
-	-	-	-	162	-	162	18,257	18,419
-	-	-	-	-	-	-	5,707	5,707
-	-	-	-	-	-	-	1,630	1,630
-	-	-	-	1,170	-	1,170	20,599	21,769
-	-	-	-	-	-	-	5,859	5,859
-	-	-	-	8,511	-	8,511	4,393	12,904
-	-	-	-	18,655	12,950	31,605	(12,930)	18,675
-	-	-	-	619	-	619	26,761	27,380
-	-	-	-	500	-	500	4,660	5,160
-	-	-	-	745	-	745	15,438	16,183
-	-	-	-	-	-	-	5,927	5,927
-	-	-	-	-	-	-	15,052	15,052
-	-	465	-	-	-	465	3,869	4,334
-	226	-	-	5	-	231	9,488	9,719
-	2,283	-	-	-	-	2,283	731	3,014
-	-	-	-	-	-	-	12,075	12,075
-	-	-	-	46,811	46,450	93,261	(45,109)	48,152
-	-	-	-	-	-	-	7,280	7,280
-	297	-	-	-	-	297	2,391	2,688
-	924	7,070	-	510	-	8,504	36,390	44,894
-	84	-	-	18	-	102	19,147	19,249
-	1,494	-	-	-	-	1,494	29,205	30,699
720	1,039	1,039	-	18	-	2,816	7,596	10,412
-	-	10,588	-	1,136	-	11,724	52,092	63,816
<b>\$ 1,070</b>	<b>\$ 6,347</b>	<b>\$ 19,162</b>	<b>\$ 120,919</b>	<b>\$ 92,084</b>	<b>\$ 68,245</b>	<b>\$ 307,827</b>	<b>\$ 282,769</b>	<b>\$ 590,596</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*Schedule 12*

**BALANCE SHEET - BY UNORGANIZED TOWNSHIP  
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND  
DECEMBER 31, 2011**

	<u>Klondike</u>	<u>McKinley</u>	<u>North Red River</u>	<u>Peatland</u>	<u>Total</u>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 5,743	\$ 40,774	\$ 50,580	\$ 51,828	\$ 148,925
Taxes receivable - prior	450	16	-	34	500
Due from other funds	-	-	972	-	972
Due from other governments	5,463	4,744	67,777	-	77,984
<b>Total Assets</b>	<b><u>\$ 11,656</u></b>	<b><u>\$ 45,534</u></b>	<b><u>\$ 119,329</u></b>	<b><u>\$ 51,862</u></b>	<b><u>\$ 228,381</u></b>
<b><u>Liabilities and Fund Balance</u></b>					
<b>Liabilities</b>					
Due to other funds	\$ 575	\$ 499	\$ 312	\$ -	\$ 1,386
Deferred revenue - unavailable	5,870	4,758	67,777	31	78,436
<b>Total Liabilities</b>	<b><u>\$ 6,445</u></b>	<b><u>\$ 5,257</u></b>	<b><u>\$ 68,089</u></b>	<b><u>\$ 31</u></b>	<b><u>\$ 79,822</u></b>
<b>Fund Balances</b>					
Restricted for public assistance - highways and streets	\$ -	\$ -	\$ 38,503	\$ -	\$ 38,503
Assigned to unorganized townships	5,211	40,277	12,737	51,831	110,056
<b>Total Fund Balances</b>	<b><u>\$ 5,211</u></b>	<b><u>\$ 40,277</u></b>	<b><u>\$ 51,240</u></b>	<b><u>\$ 51,831</u></b>	<b><u>\$ 148,559</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 11,656</u></b>	<b><u>\$ 45,534</u></b>	<b><u>\$ 119,329</u></b>	<b><u>\$ 51,862</u></b>	<b><u>\$ 228,381</u></b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 13**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2011**

		<b>Primary Government</b>
<b>Shared Revenue</b>		
<b>State</b>		
County program aid	\$	164,300
Disparity reduction aid		4,457
Enhanced 911		75,660
Highway users tax		3,446,877
Market value credit		118,648
PERA rate reimbursement		13,028
Police state aid		33,261
		<hr/>
<b>Total Shared Revenue</b>	<b>\$</b>	<b>3,856,231</b>
<b>Payments</b>		
Payments in lieu of taxes	\$	154,285
<b>Grants</b>		
<b>Local</b>		
Markit Landfill	\$	141,000
<b>State</b>		
<b>Minnesota Department/Board of</b>		
Corrections	\$	9,392
Human Services		243,164
Natural Resources		109,662
Peace Officer Standards and Training		1,894
Public Safety		94,773
Transportation		463,947
Pollution Control Agency		55,950
Veterans affairs		3,600
Water and Soil Resources		44,218
		<hr/>
<b>Total State</b>	<b>\$</b>	<b>1,026,600</b>
<b>Federal</b>		
<b>Department of</b>		
Agriculture	\$	37,552
Transportation		614,871
Health and Human Services		456,652
Homeland Security		220,096
		<hr/>
<b>Total Federal</b>	<b>\$</b>	<b>1,329,171</b>
<b>Total Grants</b>	<b>\$</b>	<b>2,496,771</b>
<b>Total Intergovernmental Revenue</b>	<b>\$</b>	<b>6,507,287</b>

**MANAGEMENT AND COMPLIANCE SECTION**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 14**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

- A. Our report expresses an unqualified opinion on the financial statements of Kittson County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Kittson County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None of the significant deficiencies are material weaknesses.
- C. No instances of noncompliance material to the financial statements of Kittson County were disclosed during the audit.
- D. 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 with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for Kittson County expresses an unqualified 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 Highway Planning and Construction, CFDA #20.205.
- 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 14*  
*(Continued)*

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 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.*

07-1 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 obtain suitable knowledge to sufficiently review, understand, and approve the County's financial statements, including notes.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 14**  
***(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

96-3 Ditch Restricted Fund Balances

Five of the 36 active individual ditch funds had deficit restricted fund balances as of December 31, 2011. The individual ditch fund deficits totaled \$144,123, with the largest individual ditch fund deficit being \$77,553.

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**

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

1541 Hwy. 59 South  
Thief River Falls, MN 56701  
Phone: 218-681-4078  
Fax: 218-681-4079  
choffman@mncable.net

**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 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, 2011, which collectively comprise the County's basic financial statements, and have issued our report dated July 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kittson County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A deficiency in internal control 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-1 and 07-1. 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.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 and the report of other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Minnesota Legal Compliance

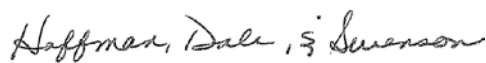
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute, § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven categories of compliance to be tested: depositories of public funds and public investments, conflicts of interest, public indebtedness, contracting - bid laws, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories. The results of our tests indicate that for the items tested, Kittson County complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Questioned Costs is a management practices comment, item 96-3. We believe this recommendation to be of benefit to Kittson County and is reported for that purpose.

The County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than those specified parties.



Hoffman, Dale, & Swenson, PLLC

July 31, 2012



**GOVERNMENTAL AUDIT SERVICES**

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

1541 Hwy. 59 South  
Thief River Falls, MN 56701  
Phone: 218-681-4078  
Fax: 218-681-4079  
choffman@mncable.net

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of County Commissioners  
Kittson County

Compliance

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 of the County's major federal program for the year ended December 31, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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 audits 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. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, Kittson County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect of its major federal program for the year ended December 31, 2011.

### Internal Control Over Compliance

Management of Kittson County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

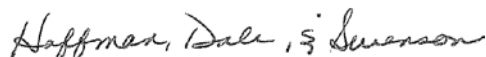
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### Schedule of Expenditures of Federal Awards

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, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 31, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The Schedule of Expenditures of Federal Awards is presented for the 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 not a required part of the 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 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 financial statements or to the 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 financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.



Hoffman, Dale, & Swenson, PLLC

July 31, 2012

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Schedule 15**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<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>37,552</u>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ <u>614,871</u>
<b>U.S. Department of Election Assistance Commission</b>		
Passed Through Minnesota Department of Secretary of State Help America Vote Act Requirements Payments	90.401	\$ <u>3,771</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	58
Temporary Assistance for Needy Families	93.558	37,535
Child Support Enforcement	93.563	60,896
Child Care and Development Fund Cluster Child Care and Development Block Grant	93.575	\$ 263
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	<u>304</u>
Total Child Care and Development Fund Cluster		567
Foster Care Title IV-E	93.658	45,183
Social Services Block Grant	93.667	63,087
Children's Health Insurance Program	93.767	26
Medical Assistance Program	93.778	<u>245,300</u>
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ <u>456,652</u></b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance	97.036	\$ 221,660
Emergency Management Performance Grants	97.042	75,258
Homeland Security Grant Program	97.067	<u>88,660</u>
<b>Total U.S. Department of Homeland Security</b>		<b>\$ <u>385,578</u></b>
<b>Total Federal Awards</b>		<b>\$ <u><u>1,498,424</u></u></b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**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, 2011. 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 assets, 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. Reconciliation to Schedule of Intergovernmental Revenue**

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,329,171
Plus: Help America Vote Act grant received in prior years and expended in current year	3,771
Disaster Grants - Public Assistance grant received in prior years and expended in current year	<u>165,482</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 1,498,424</u>

**V. Subrecipients**

During 2011, the County did not pass any federal money to subrecipients.