

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**KITTSOON COUNTY**  
**HALLOCK, MINNESOTA**

YEAR ENDED DECEMBER 31, 2015

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 650 public pension funds; and

**Tax Increment Financing** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**Year Ended December 31, 2015**



**Audit Practice Division  
Office of the State Auditor  
State of Minnesota**

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**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**ORGANIZATION SCHEDULE  
DECEMBER 31, 2015**

Office	Name	Term Expires
<b>Commissioners</b>		
1st District	Craig Spilde	January 2017
2nd District	John Anderson <sup>2</sup>	January 2017
3rd District	Joe Bouvette <sup>1</sup>	January 2019
4th District	Leon Olson	January 2017
5th District	Betty Younggren	January 2019
<b>Officials</b>		
<b>Elected</b>		
Attorney	Roger Malm	January 2019
Sheriff	Kenny Hultgren	January 2019
<b>Appointed</b>		
Administrator	Eric Christensen	Indefinite
Assessor	Marian Paulson	December 2016
Environmental Officer	Barb O'Hara	Indefinite
Highway Engineer	Kelly Bengtson	May 2019
Medical Examiner	Dr. Mary Ann Sens	Indefinite
Recorder	Kristi Hultgren	Indefinite
Social Services Director	Kathleen Johnson	Indefinite
Veterans Service Officer	Bob Cameron	May 2017

<sup>1</sup>Chair

<sup>2</sup>Vice Chair

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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1-800-627-3529 (Relay Service)

### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Kittson County  
Hallock, Minnesota

#### Report on the Financial Statements

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, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

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

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the North Kittson Rural Water System, the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the North Kittson Rural Water System, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kittson County as of December 31, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter - Change in Accounting Principle***

As discussed in Note 1 to the financial statements, in 2015 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

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

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kittson County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2018, on our consideration of Kittson County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Kittson County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kittson County's internal control over financial reporting and compliance. It does not include the North Kittson Rural Water System, which was audited by other auditors.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

April 19, 2018

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**410 5th Street SE, Ste. 208  
Hallock MN 56728  
(218) 843-2670**

**Eric Christensen  
County Administrator**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015  
(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, 2015. 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 and the notes to the financial statements that follow this section.

**FINANCIAL HIGHLIGHTS**

During the current year, Kittson County adopted the accounting principles discussed in further detail in the notes to the financial statements. Such accounting principles have been adopted prospectively, and therefore, comparative information in this section has not been restated to reflect the effect of the adoption of these accounting principles.

The total net position of governmental activities is \$63,699,923, of which \$58,110,259 is the net investment in capital assets, \$3,389,391 is restricted for specific purposes, and \$2,200,273 is unrestricted. The total net position of governmental activities decreased by \$3,926,831 for the year ended December 31, 2015. This is attributed primarily to a prior period adjustment which decreased the beginning total net position by \$5,731,925. Details of this adjustment can be found in Note 1.E.1. in the notes to the financial statements.

At the close of 2015, the County's governmental funds reported combined ending fund balances of \$7,969,022, an increase of \$1,285,608 from the prior year. Of the total fund balance amount, \$357,875 is non-spendable, \$2,790,237 is legally or contractually restricted, \$1,691,081 is assigned for specific purposes, and \$3,129,829 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, deferred overflows of resources, deferred inflows of resources, and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector businesses. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

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

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

## **Fund Financial Statements**

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

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

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

The County reports two governmental fund types: General and Special Revenue. Information is presented separately in the Balance Sheet - Governmental Funds and in the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds for the General Fund, the Road and Bridge Special Revenue Fund, and the Social Services Special Revenue Fund, all of which are considered to be major funds. Data from the remaining special revenue funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in combining statements after the notes to the financial statements.

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

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

## Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 24 of this report.

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

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$63,699,923 at the close of 2015. The largest portion of the County's net position (approximately 91 percent) reflects its net investment in capital assets (i.e., land, construction in progress, infrastructure, buildings and improvements, and machinery and equipment). It should be noted that this amount is not available for future spending. Approximately 5.3 percent of the County's net position is restricted and 3.5 percent of the County's net position is unrestricted. The unrestricted net position amount of \$2,200,273, as of December 31, 2015, may be used to meet the County's ongoing obligations to citizens.

#### Net Position

	Primary Government Governmental Activities	
	2015	2014
Assets		
Current and other assets	\$ 9,265,056	\$ 9,417,246
Capital assets	58,110,259	59,335,738
Total Assets	\$ 67,375,315	\$ 68,752,984
Deferred outflows of resources		
Deferred pension outflows	\$ 437,873	\$ -
Liabilities		
Long-term liabilities outstanding	\$ 3,220,452	\$ 586,906
Other liabilities	536,199	539,324
Total Liabilities	\$ 3,756,651	\$ 1,126,230
Deferred inflows of resources		
Deferred pension inflows	\$ 356,614	\$ -

	Primary Government Governmental Activities	
	2015	2014
Net position		
Net investment in capital assets	\$ 58,110,259	\$ 59,335,738
Restricted	3,389,391	2,881,166
Unrestricted	2,200,273	5,409,850
Total Net Position, as reported	<u>\$ 63,699,923</u>	\$ 67,626,754
Change in accounting principal*		(2,415,926)
Prior period adjustments**		<u>(3,315,999)</u>
Total Net Position, as restated		<u>\$ 61,894,829</u>

\*This is the first year the County implemented the new pension and financial reporting standards, GASB Statements 68, 71, and 82. The County had to make a prior year change in accounting principles to record the County's net pension liability and related deferred outflows of resources.

\*\*Details of prior period adjustments can be found in Note 1.E.2.

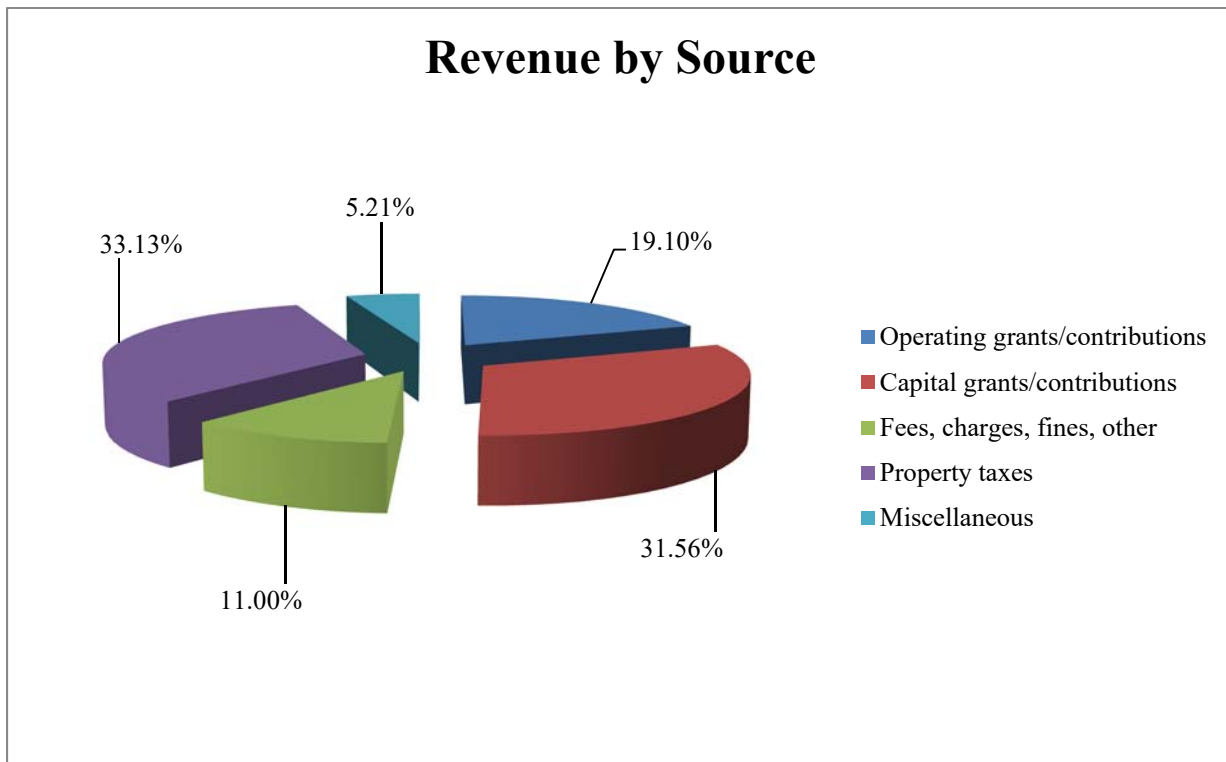
The County's overall financial position decreased from last year. Total assets decreased by \$1,377,669 from the prior year primarily due to a prior period adjustment for a change in the County's capitalization policy. Total liabilities increased by \$2,630,421 from the prior year, mainly due to the implementation of GASB 68, resulting in the recognition of a new net pension liability. Deferred outflows of resources increased by \$437,873 and deferred inflows of resources increased by \$356,614 as well. In total, these changes resulted in a decreased net position of \$3,926,831 from the prior year.

#### Changes in Net Position

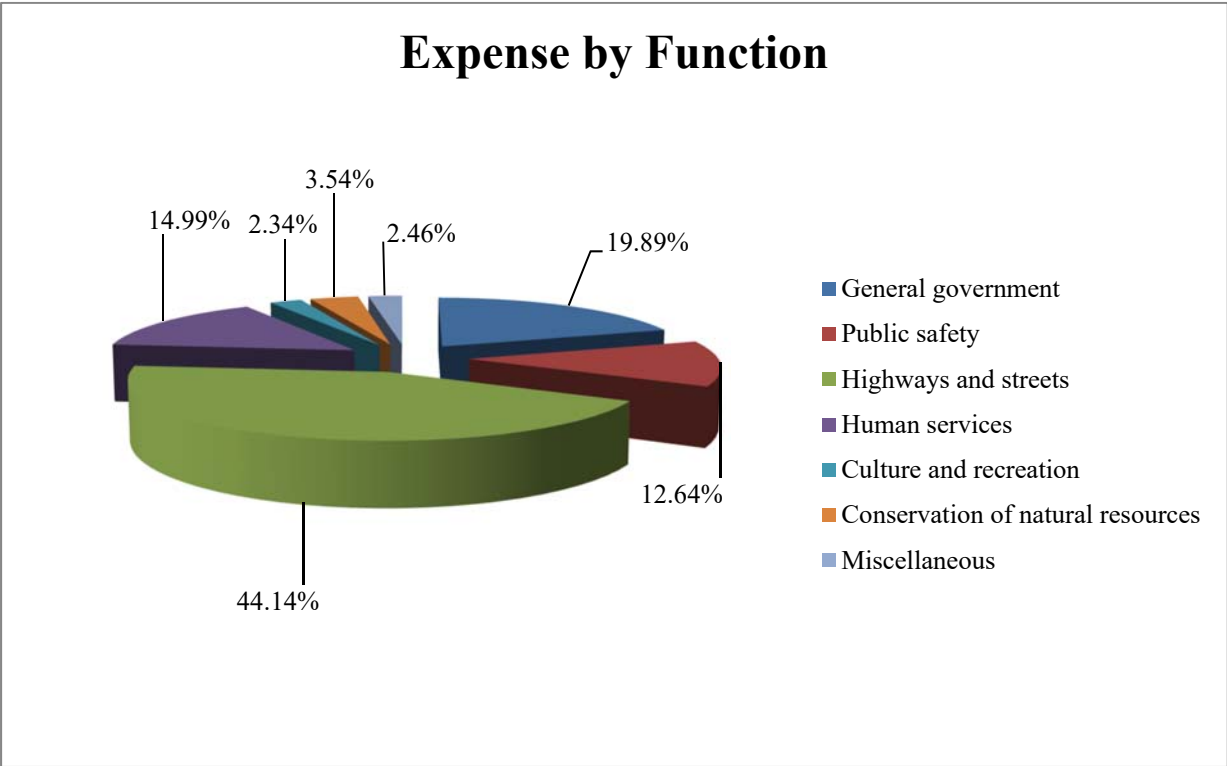
	Primary Government Governmental Activities	
	2015	2014
Revenues		
Program Revenues		
Fees, charges, fines, and other	\$ 1,244,837	\$ 2,249,419
Operating grants and contributions	2,162,502	3,069,503
Capital grants and contributions	3,572,708	2,724,698
General Revenue		
Property taxes	3,749,809	3,342,979
Grants and contributions not restricted to specific programs	47,968	234,072
Payments in lieu of taxes	385,245	223,416
Investment earnings	108,635	205,219
Miscellaneous	47,766	146,045
Total Revenues	<u>\$ 11,319,470</u>	<u>\$ 12,195,351</u>

	Primary Government Governmental Activities	
	2015	2014
Expenses		
General government	\$ 1,892,238	\$ 2,489,792
Public safety	1,202,247	1,264,690
Highway and streets	4,199,273	2,506,528
Sanitation	81,416	99,314
Human services	1,426,080	1,368,803
Health	34,812	37,513
Culture and recreation	223,057	262,575
Conservation of natural resources	337,079	419,844
Economic development	118,174	118,834
Total Expenses	<u>\$ 9,514,376</u>	<u>\$ 8,567,893</u>
Change in net position	\$ 1,805,094	\$ 3,627,458
Net Position, January 1 (as restated)	<u>61,894,829*</u>	<u>63,999,296</u>
Net Position, December 31	<u>\$ 63,699,923</u>	<u>\$ 67,626,754</u>

\*Amount includes a change in accounting principles and a prior period adjustment.







**FINANCIAL ANALYSIS OF THE GOVERNMENTS FUNDS**

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

**Governmental Funds**

At the end of 2015, the County’s governmental funds reported combined ending fund balances of \$7,969,022. Of this amount, approximately 5 percent constitutes non-spendable fund balance, 35 percent constitutes legally or contractually restricted fund balance, 21 percent constitutes specifically assigned fund balance, and 39 percent constitutes unassigned fund balance.

The General Fund is the operating fund of the County. At the end of the current fiscal year, the General Fund’s total fund balance was \$4,736,918. The General Fund’s non-spendable fund balance was \$74,524, its restricted fund balance was \$771,228, and unassigned fund balance was \$3,891,166. 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 2015. Unrestricted fund balance represents 109 percent of total General Fund expenditures, while total fund balance represents 132 percent of that same amount.

In 2015, the fund balance amount in the General Fund decreased by \$151,101, primarily due to property tax collections and payments from the federal and state governments falling short of what had been budgeted.

The fund balance of the Road and Bridge Special Revenue Fund increased by \$1,267,908 in 2015, due primarily to the advance receipt of state-aid money for road construction project costs not incurred until 2016.

The fund balance of the Social Services Special Revenue Fund increased \$179,529 from the prior year, due primarily from increased tax receipts.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

There was one amendment to the original budgeted revenues and expenditures as approved for 2015 for new furniture for the remodeling of the Sheriff’s Department. Source of funding for this appropriation was existing unrestricted fund balance. Actual revenues were less than overall budgeted revenues by \$36,302, which was largely a result of tax collections being less than what was budgeted. Actual expenditures were less than overall budgeted expenditures by \$217,354, which were largely a result of cost savings in IT (data processing) and lack of use of Operation Stonegarden funds. Operation Stonegarden is a federal grant that reimburses the County for law enforcement hours spent patrolling the international border.

**CAPITAL ASSETS AND LONG-TERM DEBT**

**Capital Assets**

The County’s investment in capital assets for its governmental activities as of December 31, 2015, amounted to \$58,110,259 (net of accumulated depreciation). The total decrease in the County’s investment in capital assets for the current fiscal year was approximately two percent. This was primarily due to a change in the County’s capitalization policy in 2014, which required a prior period adjustment to be recorded on the County’s 2015 financial statements.

**Capital Assets (Net of Depreciation)**

	Primary Government Governmental Activities	
	2015	2014*
Land	\$ 1,484,926	\$ 190,821
Construction in progress	541,664	2,730,471
Infrastructure	53,804,940	53,867,341
Buildings and improvements	1,317,390	1,502,324
Machinery and equipment	961,339	1,044,781
<b>Total Capital Assets</b>	<b>\$ 58,110,259</b>	<b>\$ 59,335,738</b>

\*As previously stated.

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. Revenue from intergovernmental sources, which includes Federal and State revenues, totaled \$7,109,406 in 2015. This amounts to 59.5 percent of the total governmental fund revenue received in 2015. This compares to intergovernmental revenues in 2014 of \$5,658,627, or 48.8 percent of the total governmental fund revenue received.

Kittson County's unemployment rate was 4.4 percent as of December 2015. This is higher than the statewide rate of 3.7 percent and lower than the national average rate of 5.0 percent.

Standard & Poor's Ratings Services assigned its "AA-" long-term rating to Kittson County's \$945,000 General Obligation Water Revenue Crossover Refunding Bonds, Series 2011A, for the discretely presented component unit, North Kittson Rural Water System. Standard & Poor's has also affirmed its "AAA" enhanced program rating.

Kittson County's population at July 1, 2015, was 4,503, a decrease of 49 since 2010. This ranks Kittson County 84 out of 87 in the State of Minnesota for population.

On December 1, 2015, Kittson County set its 2016 revenue and expenditure budgets.

### **REQUESTS FOR INFORMATION**

This annual financial report is designed to provide a general overview of Kittson County for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Kittson County Administrator, Kittson County Courthouse, 410 - 5th Street South, Suite 208, Hallock, Minnesota 56728.

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2015**

	<b>Primary Government Governmental Activities</b>	<b>North Kittson Rural Water System Component Unit</b>
<b><u>Assets</u></b>		
<b>Current assets</b>		
Cash and pooled investments	\$ 7,729,012	\$ 382,066
Investments	140,000	1,456,782
Taxes receivable - delinquent	60,832	-
Special assessments receivable		
Delinquent	551	21,829
Noncurrent	-	554,700
Accounts receivable	17,062	56,948
Surcharge receivable for debt repayment	-	6,380
Accrued interest receivable	25,254	680
Due from other governments	1,008,994	451,307
Inventories	283,351	-
<b>Capital assets</b>		
Non-depreciable	2,026,590	108,045
Depreciable - net of accumulated depreciation	56,083,669	9,610,837
<b>Total Assets</b>	<b>\$ 67,375,315</b>	<b>\$ 12,649,574</b>
<b><u>Deferred Outflows of Resources</u></b>		
Deferred pension outflows	<b>\$ 437,873</b>	<b>\$ 17,923</b>



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 1  
(Continued)**

**STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2015**

	<b>Primary Government Governmental Activities</b>	<b>North Kittson Rural Water System Component Unit</b>
<b><u>Liabilities</u></b>		
Accounts payable	\$ 328,283	\$ 20,781
Salaries payable	125,754	-
Accrued payroll taxes	-	5,829
Contracts payable	34,383	-
Due to other governments	47,779	3,804
Customer deposits	-	11,700
Long-term liabilities		
Due within one year	169,282	167,145
Due in more than one year	301,578	620,686
Net other postemployment benefits obligation	187,910	-
Net pension liability	2,561,682	135,213
<b>Total Liabilities</b>	<b>\$ 3,756,651</b>	<b>\$ 965,158</b>
<b><u>Deferred Inflows of Resources</u></b>		
Deferred pension inflows	<b>\$ 356,614</b>	<b>\$ 13,578</b>
<b><u>Net Position</u></b>		
Net investment in capital assets	\$ 58,110,259	\$ 9,528,304
Restricted for		
General government	351,134	-
Public safety	422,831	-
Highways and streets	2,023,528	-
Human services	82,199	-
Conservation of natural resources	509,699	-
Debt service	-	149,672
Unrestricted	2,200,273	2,010,785
<b>Total Net Position</b>	<b>\$ 63,699,923</b>	<b>\$ 11,688,761</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
<b>Primary government</b>		
<b>Governmental activities</b>		
General government	\$ 1,892,238	\$ 303,264
Public safety	1,202,247	35,912
Highways and streets	4,199,273	584,091
Sanitation	81,416	27,198
Human services	1,426,080	224,859
Health	34,812	-
Culture and recreation	223,057	-
Conservation of natural resources	337,079	69,513
Economic development	118,174	-
<b>Total Primary Government</b>	<b>\$ 9,514,376</b>	<b>\$ 1,244,837</b>
<b>Component unit</b>		
North Kittson Rural Water System	<b>\$ 757,183</b>	<b>\$ 747,248</b>

**General Revenues**

Property taxes  
Mortgage registry and deed tax  
Grants and contributions not restricted to specific programs  
Unrestricted investment earnings  
Miscellaneous

**Total general revenues**

**Change in net position**

**Net Position - Beginning, as restated  
(Note 1.E.3 and Note 7.A.8.)**

**Net Position - Ending**

**EXHIBIT 2**

<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>	
<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>	<u>Discretely Presented Component Unit</u>
\$ 106,199	\$ -	\$ (1,482,775)	
51,652	-	(1,114,683)	
1,218,794	3,572,708	1,176,320	
141,000	-	86,782	
583,904	-	(617,317)	
-	-	(34,812)	
-	-	(223,057)	
60,953	-	(206,613)	
-	-	(118,174)	
<u>\$ 2,162,502</u>	<u>\$ 3,572,708</u>	<u>\$ (2,534,329)</u>	
<u>\$ -</u>	<u>\$ 13,917</u>		<u>\$ 3,982</u>
		\$ 3,749,809	\$ -
		47,968	-
		385,245	307
		108,635	3,007
		47,766	-
		<u>\$ 4,339,423</u>	<u>\$ 3,314</u>
		\$ 1,805,094	\$ 7,296
		<u>61,894,829</u>	<u>11,681,465</u>
		<u>\$ 63,699,923</u>	<u>\$ 11,688,761</u>

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## **FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

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**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2015**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b><u>Assets</u></b>					
<b>Current assets</b>					
Cash and pooled investments	\$ 4,790,133	\$ 707,973	\$ 1,501,890	\$ 727,216	\$ 7,727,212
Petty cash and change funds	1,800	-	-	-	1,800
Fund deposits	100,000	-	40,000	-	140,000
Taxes receivable - delinquent	39,052	9,729	11,721	330	60,832
Special assessments - delinquent	-	-	-	551	551
Accounts receivable	9,559	7,503	-	-	17,062
Accrued interest receivable	25,247	-	7	-	25,254
Due from other funds	182	4,546	-	-	4,728
Due from other governments	25,188	879,442	99,464	4,900	1,008,994
Inventories	-	283,351	-	-	283,351
Advances to other funds	65,243	-	-	-	65,243
<b>Total Assets</b>	<b><u>\$ 5,056,404</u></b>	<b><u>\$ 1,892,544</u></b>	<b><u>\$ 1,653,082</u></b>	<b><u>\$ 732,997</u></b>	<b><u>\$ 9,335,027</u></b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 171,090	\$ 104,922	\$ 51,141	\$ 1,130	\$ 328,283
Salaries payable	65,616	38,724	21,414	-	125,754
Contracts payable	-	34,383	-	-	34,383
Due to other funds	-	-	182	4,546	4,728
Due to other governments	24,824	1,898	20,764	293	47,779
Advances from other funds	-	-	-	65,243	65,243
<b>Total Liabilities</b>	<b><u>\$ 261,530</u></b>	<b><u>\$ 179,927</u></b>	<b><u>\$ 93,501</u></b>	<b><u>\$ 71,212</u></b>	<b><u>\$ 606,170</u></b>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue	<b><u>\$ 57,956</u></b>	<b><u>\$ 691,875</u></b>	<b><u>\$ 9,626</u></b>	<b><u>\$ 378</u></b>	<b><u>\$ 759,835</u></b>

The notes to the financial statements are an integral part of this statement.

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**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2015**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>					
<b>(Continued)</b>					
<b>Fund Balances</b>					
Nonspendable					
Inventories	\$ -	\$ 283,351	\$ -	\$ -	\$ 283,351
Advances to other funds	65,243	-	-	-	65,243
Missing heirs	9,281	-	-	-	9,281
Restricted for					
Ditch maintenance and construction	-	-	-	503,155	503,155
Corrections supervision	7,075	-	-	-	7,075
DWI assessment	5,495	-	-	-	5,495
E-911	392,068	-	-	-	392,068
Handgun permits	13,467	-	-	-	13,467
Help America Vote Act	124,457	-	-	-	124,457
Child protection grant	-	-	82,199	-	82,199
Gravel pit restoration	-	113,512	-	-	113,512
State aid highway projects	-	1,320,143	-	-	1,320,143
Probation	1,640	-	-	-	1,640
Recorder's technology equipment	93,185	-	-	-	93,185
Sheriff's contingencies	1,690	-	-	-	1,690
Recorder's compliance	121,214	-	-	-	121,214
Vehicle seizures	1,396	-	-	-	1,396
Victim assistance	2,997	-	-	-	2,997
Water planning	6,544	-	-	-	6,544
Assigned to					
Social services	-	-	1,467,756	-	1,467,756
Unorganized townships	-	-	-	223,325	223,325
Unassigned	3,891,166	(696,264)	-	(65,073)	3,129,829
<b>Total Fund Balances</b>	<b>\$ 4,736,918</b>	<b>\$ 1,020,742</b>	<b>\$ 1,549,955</b>	<b>\$ 661,407</b>	<b>\$ 7,969,022</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 5,056,404</b>	<b>\$ 1,892,544</b>	<b>\$ 1,653,082</b>	<b>\$ 732,997</b>	<b>\$ 9,335,027</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2015**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>7,969,022</b>
Amounts reported for governmental activities in the statement of net position 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.		58,110,259
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.		437,873
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		759,835
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Compensated absences	\$ (470,860)	
Net other postemployment benefits obligation	(187,910)	
Net pension liability	<u>(2,561,682)</u>	(3,220,452)
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.		<u>(356,614)</u>
<b>Net Position of Governmental Activities (Exhibit 1)</b>	<b>\$</b>	<b><u>63,699,923</u></b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 5**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Revenues</b>					
Taxes	\$ 2,158,818	\$ 692,123	\$ 731,027	\$ 33,920	\$ 3,615,888
Special assessments	-	-	-	58,919	58,919
Licenses and permits	9,673	-	-	-	9,673
Intergovernmental	812,761	5,544,792	717,008	34,845	7,109,406
Charges for services	127,123	522,421	85,604	10,355	745,503
Fines and forfeits	3,950	-	-	-	3,950
Investment earnings	83,620	-	-	-	83,620
Miscellaneous	236,230	11,880	56,119	19,799	324,028
<b>Total Revenues</b>	<b>\$ 3,432,175</b>	<b>\$ 6,771,216</b>	<b>\$ 1,589,758</b>	<b>\$ 157,838</b>	<b>\$ 11,950,987</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 1,688,296	\$ -	\$ -	\$ -	\$ 1,688,296
Public safety	1,212,388	-	-	6,082	1,218,470
Highways and streets	-	4,955,554	-	60,441	5,015,995
Sanitation	73,119	-	-	-	73,119
Human services	-	-	1,410,229	-	1,410,229
Health	36,120	-	-	-	36,120
Culture and recreation	223,057	-	-	-	223,057
Conservation of natural resources	232,122	-	-	97,103	329,225
Economic development	118,174	-	-	-	118,174
<b>Intergovernmental</b>					
Highways and streets	-	502,438	-	-	502,438
<b>Total Expenditures</b>	<b>\$ 3,583,276</b>	<b>\$ 5,457,992</b>	<b>\$ 1,410,229</b>	<b>\$ 163,626</b>	<b>\$ 10,615,123</b>
<b>Net Change in Fund Balance</b>	<b>\$ (151,101)</b>	<b>\$ 1,313,224</b>	<b>\$ 179,529</b>	<b>\$ (5,788)</b>	<b>\$ 1,335,864</b>
<b>Fund Balance - January 1</b>	<b>4,888,019</b>	<b>(247,166)</b>	<b>1,370,426</b>	<b>667,195</b>	<b>6,678,474</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>(45,316)</b>	<b>-</b>	<b>-</b>	<b>(45,316)</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,736,918</b>	<b>\$ 1,020,742</b>	<b>\$ 1,549,955</b>	<b>\$ 661,407</b>	<b>\$ 7,969,022</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 1,335,864**

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

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Change in unavailable revenue (635,297)

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. In the statement of activities, the net book value of assets disposed of is expensed, while not reported in the fund statements.

Expenditures for general capital assets and infrastructure	\$ 3,147,382	
Current year depreciation	<u>(1,861,177)</u>	1,286,205

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	\$ (52,187)	
Change in net other postemployment benefits obligation	(19,677)	
Change in net pension liability, as restated	(11,287)	
Change in deferred pension outflows, as restated	303,403	
Change in deferred pension inflows	(356,614)	
Change in inventories	<u>(45,316)</u>	<u>(181,678)</u>

**Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,805,094**

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## **FIDUCIARY FUNDS**

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**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF FIDUCIARY NET POSITION  
AGENCY FUNDS  
DECEMBER 31, 2015**

<u>Assets</u>	
Cash and pooled investments	\$ <u><u>3,482,412</u></u>
 <u>Liabilities</u>	
Accounts payable	\$ 63,855
Due to other governments	<u>3,418,557</u>
<b>Total Liabilities</b>	<b>\$ <u><u>3,482,412</u></u></b>

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**KITTSON COUNTY  
HALLOCK, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

1. 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) as of and for the year ended December 31, 2015. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Discretely Presented Component Unit

While part of the reporting entity, the discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County. The following component unit of Kittson County is discretely presented:

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements Available at</u>
North Kittson Rural Water System	The County appoints the North Kittson Rural Water Board and may be obliged to finance a deficit or debt of the Rural Water Board.	Kittson County Administrator's Office 410 - 5th Street South Suite 208 Hallock, Minnesota 56728

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures, Related Organizations, and Jointly-Governed Organizations

The County participates in joint ventures, related organizations, and jointly-governed organizations, which are described in Notes 6.B., 6.C., and 6.D., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary 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 all financial resources of the general government, except those accounted for in another fund.

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways. Sources of revenues include property taxes, intergovernmental revenues, and charges for services.

The Social Services Special Revenue Fund is used to account for economic assistance and community social services programs. Sources of revenues include property taxes, intergovernmental revenues, and charges for services.

Additionally, the County reports the following fund type:

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 agent capacity.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Kittson County considers all revenues as available if collected within 60 days after the end of the current period. Property taxes are recognized as revenues in the year for which they are levied provided they are also available. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources. When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first and then unrestricted resources as needed.

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Administrator for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2015, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment income for 2015 was \$83,620.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

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

Activities 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” (the current portion of interfund loans) or “advances to/from other funds” (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 nonspendable account in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources, unless the funds are otherwise restricted, committed, or assigned.

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

3. Special Assessments Receivable

Special assessments receivable consists of delinquent special assessments payable in the years 2011 through 2015. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

4. 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 nonspendable fund balance to indicate that they do not constitute available spendable resources.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than the capitalization threshold and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The County's capitalization threshold for capital assets is as follows:

<u>Assets</u>	<u>Capitalization Threshold</u>
Land	\$ 25,000
Buildings	25,000
Building improvements	25,000
Public domain infrastructure	25,000
Furniture, equipment, and vehicles	25,000

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



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

5. Capital Assets (Continued)

Property, plant, and equipment of the County 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, furniture, and equipment	5 - 10

6. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation, sick leave, and compensatory time 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 government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion of the liability for vacation consists of an amount based upon what the employee can accrue within one year, or the balance, whatever is smaller. The compensated absences liability is liquidated by the General Fund and the Road and Bridge and Social Services Special Revenue Funds.

7. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit

**KITTSOON COUNTY  
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1. Summary of Significant Accounting Policies

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

7. Pension Plan (Continued)

payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value. The pension liability is liquidated by the General Fund and the Road and Bridge and Social Services Special Revenue Funds.

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the County has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date and also differences between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Currently, the County has two types of deferred inflows. The governmental funds report unavailable revenue from delinquent taxes receivable, delinquent special assessments receivable, grants and allotments receivable, and for amounts that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

**KITTSOON COUNTY  
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1. Summary of Significant Accounting Policies

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

9. Classification of Net Position

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

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

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

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

10. Classifications of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which Kittson County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - amounts in which constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

10. Classifications of Fund Balances (Continued)

Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Administrator who has been delegated that authority by Board resolution.

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

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

11. Minimum Fund Balance

The County will maintain an unrestricted fund balance in the General Fund of an amount not less than 35 to 50 percent of next year's budgeted expenditures of the General Fund. Unrestricted fund balance can be "spent down" if there is an anticipated budget shortfall in excess of zero dollars. If spending unrestricted fund

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

11. Minimum Fund Balance (Continued)

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.

12. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, 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.

E. Restatement of Fund Balance and Net Position

1. Change in Accounting Principles

During the year ended December 31, 2015, the County adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Restatement of Fund Balance and Net Position

1. Change in Accounting Principles (Continued)

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, modifies the measure of payroll that is presented in the required supplementary information schedule.

GASB Statements 68 and 71 require the County to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the County's net pension liability and related deferred outflows of resources, as disclosed in Note 1.E.3.

2. Prior Period Adjustments

Restatement of Capital Assets and Net Position

The January 1, 2015, depreciable and non-depreciable capital assets decreased by a total of \$3,578,642 to correct a prior year overstatement of capital assets. Accumulated depreciation was also decreased by \$1,066,959 to correct a prior year overstatement of depreciation. The total effect to net position was a decrease of \$2,511,683, as disclosed in Note 1.E.3.

Restatement of Bridge Bonding Revenue and Net Position

The January 1, 2015, net position was overstated by \$799,376. The unexpended allotment was incorrectly determined to be a receivable and revenue at year-end 2014. The adjusting entry reduces beginning net position and increases 2015 revenue, as disclosed in Note 1.E.3.

Reclassification of Health Insurance Special Revenue Fund to Agency Fund Statement

Previously, the County presented the Health Insurance Special Revenue Fund. This fund does not meet the criteria of a special revenue fund under GASB Statement 54. Therefore, the Health Insurance Special Revenue Fund was reclassified as the Health Insurance Agency Fund as of January 1, 2015. The January 1, 2015, fund balance

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Restatement of Fund Balance and Net Position

2. Prior Period Adjustments

Reclassification of Health Insurance Special Revenue Fund to Agency Fund  
Statement (Continued)

of \$4,940 in the Health Insurance Special Revenue Fund was eliminated and amounts for cash and pooled investments and for accounts payable were reclassified to the Agency Fund. The total effect to net position was a decrease of \$4,940, as disclosed in Note 1.E.3.

3. Restatement of Net Position

	Governmental Activities
Net Position, January 1, 2015, as previously reported	\$ 67,626,754
Change in accounting principles	
Net pension liability	(2,550,395)
Deferred outflows of resources related to pensions	134,469
Correction of an error	
Adjustment for capital assets	(2,511,683)
Adjustment for bridge bonding receivable	(799,376)
Reclassification of Health Insurance Special Revenue Fund to Agency Fund	(4,940)
Net Position, January 1, 2015, as restated	\$ 61,894,829

4. Reclassification of Fund Type

Previously, the County presented an investment trust fund for the Mar-Kit Landfill. The Mar-Kit Landfill Investment Trust Fund does not meet the requirements of an investment trust fund since there is no formal agreement to provide interest, therefore it was reclassified to be included with the Mar-Kit Landfill Agency Fund. The beginning balance in the Mar-Kit Landfill Investment Trust Fund of \$800,000 was adjusted to be included with the Mar-Kit Landfill Agency Fund.

**KITTSOON COUNTY  
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2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Deficit Fund Balance

The Forfeited Tax Sale Special Revenue Fund had a deficit fund balance of \$46,259 as of December 31, 2015. The deficit will be eliminated through future collections.

Individual Ditch Fund Deficits

Of 36 drainage systems, 4 have incurred expenditures in excess of their revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balance of the Ditch Special Revenue Fund.

Restricted fund balances	\$	503,155
Unassigned fund balances		(18,814)
Total Fund Balances	\$	484,341

B. Excess of Expenditures Over Budget

The following nonmajor fund had significant expenditures in excess of budget at the department level for the year ended December 31, 2015:

	Expenditures	Final Budget	Excess
Ditch Special Revenue Fund			
Current			
Conservation of natural resources			
Drainage ditches	\$ 96,592	\$ 15,500	\$ 81,092



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

Reconciliation of the County's total cash and investments to the basic financial statements follows:

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 7,729,012
Fund deposits	140,000
North Kittson Rural Water System District Component Unit	
Cash and investments pooled with the County	79,672
Cash and cash equivalents	70,000
Statement of fiduciary net position	
Cash and pooled investments	
Agency funds	3,482,412
Total Cash and Investments	\$ 11,501,096
Deposits	\$ 2,353,473
Petty cash and change funds	1,800
Investments	9,145,823
Total Deposits, Cash on Hand, and Investments	\$ 11,501,096

a. Deposits

Kittson County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect County deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

a. Deposits (Continued)

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better and revenue obligations rated “AA” or better; irrevocable standby 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 that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County’s investment policy provides that full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit. As of December 31, 2015, the County’s deposits were not exposed to custodial credit risk.

b. Investments

The County may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (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 Minn. Stat. § 118A.04, subd. 6;

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

- (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 in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County's investment policy provides for investment diversification to eliminate risk of loss resulting from the over concentration of assets in a specific maturity, issuer, or class of securities. The risks of market price volatility shall be controlled through maturity diversification and duration management.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments

Interest Rate Risk (Continued)

At December 31, 2015, the County had the following investments and maturities:

	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 - 5 Years</u>	<u>More Than 5 Years</u>
U.S. government agency	\$ 545,110	\$ -	\$ 545,110	\$ -
Negotiable certificates of deposit	4,640,665	1,800,384	2,493,032	347,249
Money market accounts	1,727,490	1,727,490	-	-
Municipal bonds	2,232,558	-	1,259,463	973,095
<b>Total Investments</b>	<b>\$ 9,145,823</b>	<b>\$ 3,527,874</b>	<b>\$ 4,297,605</b>	<b>\$ 1,320,344</b>
	100%	39%	47%	14%

Credit Risk

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments

Credit Risk (Continued)

The County's exposure to credit risk as of December 31, 2015, is as follows

	Rating	Fair Value
Municipal Bonds		
Oak Creek, WI, Promissory Notes	Aa2	\$ 352,940
Baltimore, MD, G.O. Bonds	AAA	206,356
Snohomish County, WA, G.O. Bonds	AA+	302,595
Northland Pines, WI, School District G.O. Bonds	Aa3	397,572
Peoria County, IL, Community School District #323 G.O. Bonds	Aa2	183,290
Brooklyn Center, MN, G.O. Bonds	AA	390,743
Whitefish Bay, WI, G.O. Bonds	Aa1	127,277
Virginia Beach, VA, Public Improvement G.O. Bonds	AAA	271,785
Total Municipal Bonds		\$ 2,232,558
Agency Bonds		
Federal Home Loan Mortgage Corporation	AA+	\$ 447,795
Tennessee Valley Authority Bonds	Aaa	97,315
Total Agency Bonds		\$ 545,110
Total		\$ 2,777,668

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 in the possession of an

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

outside party. Kittson County does not have a policy for custodial credit risk. At December 31, 2015, \$1,935,806 of the County's investments are 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. The County's policy is to diversify use of investment instruments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions, or maturities. At December 31, 2015, the County did not hold more than five percent of its portfolio in any one issuer.

2. Receivables

Receivables as of December 31, 2015, for the County's governmental activities are as follows:

	<u>Total Receivables</u>
Governmental Activities	
Taxes	\$ 60,832
Special assessments	551
Accounts	17,062
Accrued interest	25,254
Due from other governments	<u>1,008,994</u>
Total Governmental Activities	<u>\$ 1,112,693</u>

The County had no receivables scheduled to be collected beyond one year.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

	Beginning Balance (Restated) Note 1.E.2.	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,484,926	\$ -	\$ -	\$ 1,484,926
Construction in progress	688,028	2,873,593	3,019,957	541,664
Total capital assets not depreciated	<u>\$ 2,172,954</u>	<u>\$ 2,873,593</u>	<u>\$ 3,019,957</u>	<u>\$ 2,026,590</u>
Capital assets depreciated				
Buildings and improvements	\$ 3,390,697	\$ 38,523	\$ -	\$ 3,429,220
Machinery, furniture, and equipment	3,150,575	235,265	592,598	2,793,242
Infrastructure	73,083,281	3,019,957	-	76,103,238
Total capital assets depreciated	<u>\$ 79,624,553</u>	<u>\$ 3,293,745</u>	<u>\$ 592,598</u>	<u>\$ 82,325,700</u>
Less: accumulated depreciation for				
Buildings and improvements	\$ 1,944,479	\$ 167,351	\$ -	\$ 2,111,830
Machinery, furniture, and equipment	2,186,360	238,141	592,598	1,831,903
Infrastructure	20,842,613	1,455,685	-	22,298,298
Total accumulated depreciation	<u>\$ 24,973,452</u>	<u>\$ 1,861,177</u>	<u>\$ 592,598</u>	<u>\$ 26,242,031</u>
Total capital assets depreciated, net	<u>\$ 54,651,101</u>	<u>\$ 1,432,568</u>	<u>\$ -</u>	<u>\$ 56,083,669</u>
Governmental Activities Capital Assets, Net	<u>\$ 56,824,055</u>	<u>\$ 4,306,161</u>	<u>\$ 3,019,957</u>	<u>\$ 58,110,259</u>

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

Governmental Activities	
General government	\$ 151,231
Public safety	47,654
Highways and streets, including depreciation of infrastructure assets	1,662,292
Total Depreciation Expense - Governmental Activities	<u>\$ 1,861,177</u>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

4. Deferred Outflows of Resources

Deferred outflows of resources - deferred pension outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date and also differences between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position. Deferred pension outflows for the year ended December 31, 2015, were \$437,873.

B. Interfund Receivables and Payables

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2015, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Social Services Special Revenue Fund	\$ 182
Road and Bridge Special Revenue Fund	Ditch Special Revenue Fund	2,766
	Unorganized Townships Special Revenue Fund	1,780
Total Due To/From Other Funds		\$ 4,728

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



**KITTSOON COUNTY  
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3. Detailed Notes on All Funds

B. Interfund Receivables and Payables (Continued)

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund	\$ 19,100
General Fund	Forfeited Tax Sale Special Revenue Fund	46,143
Total Advances From/To Other Funds		\$ 65,243

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

The Forfeited Tax Sale Special Revenue Fund has had a deficit fund balance for a number of years. The advance from the General Fund annually is to make the fund solvent.

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2015, were as follows:

Accounts	\$ 328,283
Salaries	125,754
Contracts payable	34,383
Due to other governments	47,779
Total Payables	\$ 536,199

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

2. Compensated Absences

Under the County's personnel policies and union contracts, employees are granted vacation in varying amounts based on their length of service. Vacation leave accrual varies from 12 to 27 days per year. Sick leave accrual is 12 days per year. Leave may be accumulated to a maximum of 30 days vacation and 150 days sick leave under the County's employment policy.

Unused compensatory time, accumulated vacation, and vested sick leave are paid to employees upon termination. Unvested sick leave, approximately \$391,899 at December 31, 2015, is available to employees in the event of illness-related absences and is not paid to them at termination.

Changes in compensated absences for the governmental activities for the year ended December 31, 2015, were:

Payable at January 1	\$ 418,673
Additions	344,617
Deductions	<u>(292,430)</u>
Payable at December 31	<u>\$ 470,860</u>

Of the total compensated absences of \$470,860, the amount due within one year is \$169,282.

3. Deferred Inflows of Resources - Unavailable Revenue

Deferred inflows of resources - unavailable revenue consists of taxes, special assessments, state and/or federal grants and state highway users tax allotments, and other receivables not collected soon enough after year-end to pay liabilities of the current period.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

3. Deferred Inflows of Resources - Unavailable Revenue (Continued)

	<u>Taxes</u>	<u>Special Assessments</u>	<u>Grants and Allotments</u>	<u>Other</u>	<u>Total</u>
Major governmental funds					
General	\$ 32,941	\$ -	\$ -	\$ 25,015	\$ 57,956
Road and Bridge	7,880	-	683,995	-	691,875
Social Services	9,626	-	-	-	9,626
Nonmajor governmental funds					
Ditch Special Revenue	-	218	-	-	218
Unorganized Townships Special Revenue	160	-	-	-	160
 Total Unavailable Revenue	 <u>\$ 50,607</u>	 <u>\$ 218</u>	 <u>\$ 683,995</u>	 <u>\$ 25,015</u>	 <u>\$ 759,835</u>

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

All full-time and certain part-time employees of Kittson County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

**KITTSOON COUNTY  
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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years and increasing 5 percent for each year of service until fully vested after 20 years.

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Fund. For members hired after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph 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 their public service.

**KITTSOON COUNTY  
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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For General Employees Retirement Fund members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. For Public Employees Police and Fire Fund and Public Employees Correctional Fund members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 55. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

3. Contributions (Continued)

6.50 percent, respectively, of their annual covered salary in 2015. Public Employees Police and Fire Fund members were required to contribute 10.80 percent of their annual covered salary in 2015. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary in 2015.

In 2015, the County was required to contribute the following percentages of annual covered salary:

General Employees Retirement Fund	
Coordinated Plan members	7.50 %
Public Employees Police and Fire Fund	16.20
Public Employees Correctional Fund	8.75

The General Employees Retirement Fund Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014. The Public Employees Police and Fire Fund member and employer contribution rates increased 0.60 percent and 0.90 percent, respectively, from 2014.

The County's contributions for the year ended December 31, 2015, to the pension plans were:

General Employees Retirement Fund	\$	169,068
Public Employees Police and Fire Fund		60,842
Public Employees Correctional Fund		23,478

The contributions are equal to the contractually required contributions as set by state statute.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

4. Pension Costs

General Employees Retirement Fund

At December 31, 2015, the County reported a liability of \$2,061,274 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.0462 percent. It was 0.0505 percent measured as of June 30, 2014. The County recognized pension expense of \$230,643 for its proportionate share of the General Employees Retirement Fund's pension expense.

The County reported its proportionate share of the General Employees Retirement Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 103,924
Difference between projected and actual investment earnings	195,132	-
Changes in proportion	-	130,421
Contributions paid to PERA subsequent to the measurement date	95,994	-
Total	\$ 291,126	\$ 234,345

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

The \$95,994 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2016	\$ (29,332)
2017	(29,332)
2018	(29,332)
2019	48,783

Public Employees Police and Fire Fund

At December 31, 2015, the County reported a liability of \$477,218 for its proportionate share of the Public Employees Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.042 percent. It was 0.046 percent measured as of June 30, 2014. The County recognized pension expense of \$75,430 for its proportionate share of the Public Employees Police and Fire Fund's pension expense.

The County also recognized \$3,780 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Fund. Legislation requires the State of Minnesota to contribute \$9 million to the Public Employees Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded.



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

The County reported its proportionate share of the Public Employees Police and Fire Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 77,389
Difference between projected and actual investment earnings	83,147	-
Changes in proportion	-	36,001
Contributions paid to PERA subsequent to the measurement date	32,073	-
Total	\$ 115,220	\$ 113,390

The \$32,073 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ (1,891)
2017	(1,891)
2018	(1,891)
2019	(1,891)
2020	(22,679)

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Fund

At December 31, 2015, the County reported a liability of \$23,190 for its proportionate share of the Public Employees Correctional Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.15 percent. It was 0.15 percent measured as of June 30, 2014. The County recognized pension expense of \$24,842 for its proportionate share of the Public Employees Correctional Fund's pension expense.

The County reported its proportionate share of the Public Employees Correctional Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 8,879
Difference between projected and actual investment earnings	19,331	-
Contributions paid to PERA subsequent to the measurement date	12,196	-
Total	\$ 31,527	\$ 8,879

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Fund (Continued)

The \$12,196 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2016	\$ 1,873
2017	1,873
2018	1,873
2019	4,833

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2015, was \$330,915.

5. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Fund and the Public Employees Police and Fire Fund, cost of living benefit increases for retirees are assumed to be 1.0 percent effective every January 1 through 2035 and 2037, respectively, and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for all years for the Public Employees Correctional Fund.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for the Public Employees Police and Fire Fund was for the period July 1, 2004, through June 30, 2009. The experience study for the Public Employees Correctional Fund was for the period July 1, 2006, through June 30, 2011.

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

6. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate (6.9%)</u>	<u>Discount Rate (7.9%)</u>	<u>1% Increase in Discount Rate (8.9%)</u>
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 3,241,054	\$ 2,061,274	\$ 1,086,955
Public Employees Police and Fire Fund net pension liability	930,103	477,218	103,056
Public Employees Correctional Fund net pension liability (asset)	161,499	23,190	(87,513)

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

8. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

9. Subsequent Changes

Subsequent to 2015, Kittson County's net pension liability for each plan increased substantially. The increase in net pension liability is offset by deferred outflows of resources, deferred inflows of resources, and pension expense.

B. Defined Contribution Plan

Six elected officials of Kittson County are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the state legislature. 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. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. 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.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by Kittson County during the year ended December 31, 2015, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 7,035	\$ 7,035
Percentage of covered payroll	5%	5%

C. Other Postemployment Benefits (OPEB)

Plan Description

Kittson County provides a single-employer, defined benefit health care plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. The retiree health care plan does not issue a publicly available financial report.

Funding Policy

The contribution requirements of the plan members 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 and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2015, there were approximately 71 participants in the plan, including 7 retirees. The OPEB liability is liquidated through the General Fund and the Road and Bridge and Social Services Special Revenue Funds.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. 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 accrued liabilities (or funding excess) over a period not to exceed 30 years.

**KITTSOON COUNTY  
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4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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 plan.

ARC	\$	42,314
Interest on net OPEB obligation		6,729
Adjustment to ARC		<u>(9,540)</u>
Annual OPEB cost (expense)	\$	39,503
Contributions made during the year		<u>(19,826)</u>
Increase in net OPEB obligation	\$	19,677
Net OPEB Obligation - Beginning of Year		<u>168,233</u>
Net OPEB Obligation - End of Year	\$	<u><u>187,910</u></u>

The County's annual OPEB cost for the year ended December 31, 2015, was \$39,503. The percentage of OPEB cost contributed to the plan was 50.2 percent, and the net OPEB obligation as of December 31, 2015, was \$187,910.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2015	\$ 39,503	\$ 19,826	50.2%	\$ 187,910

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



**KITTSON COUNTY  
HALLOCK, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

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

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, will present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the January 1, 2015, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.00 percent investment rate of return (net of investment expenses), which is Kittson County's implicit rate of return on the General Fund. The annual health care cost trend is 7.25 percent initially, reduced by decrements to an ultimate rate of 5.00 percent over 9 years. Both rates included a 2.50 percent

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

inflation assumption. The UAAL is being amortized as a level dollar amount over 30 years on a closed basis. The remaining amortization period at December 31, 2015, was 30 years.

5. 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. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' 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 \$490,000 per claim in 2015 and \$500,000 per claim in 2016. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. 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.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Amounts received or receivable from grantor 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, is involved in various judgments, claims, and litigation. The County Attorney estimates that the potential claims against the County not covered by insurance resulting from such litigation would not materially affect the financial statements of the County.

B. Joint Ventures

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

The Region 3 Emergency Managers Joint Powers Board was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59 and Minn. Stat. ch. 12. Members include Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The Board was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the region.

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

The HSEM Region 3 Emergency Managers Joint Powers Board has no long-term debt. Financing will be provided by a Homeland Security Grant Program and other grant programs and awards. Member counties do not receive a financial benefit or burden as a result of membership. In 2015, Kittson County did not make a contribution to the Board.

**KITTSON COUNTY  
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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

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

Complete financial information can be obtained from:

Clay County Sheriff's Office  
915 Ninth Avenue North  
Moorhead, Minnesota 56560

Karlstad Mobile Relay Station

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

Control of the Karlstad Mobile Relay Station is vested in an advisory board which is composed of one representative appointed by each County Board and the Kittson County Administrator or Deputy Auditor. In the event of dissolution of the Relay Station, the net position at 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 in 2015.

Complete financial information can be obtained from:

Kittson County Administrator's Office  
P. O. Box 848  
Hallock, Minnesota 56728

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HALLOCK, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Mar-Kit Landfill

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

Control of the Landfill is vested in the Mar-Kit Landfill Joint Powers Board, which is composed of three County Commissioners from each county. Serving as non-voting members are 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 position of the Landfill at that time shall be divided among the two counties by a percentage of population and contributions that, per county, generated the assets. Should a loss situation occur, the expenses shall be shared in the same proportion so that no member experiences a financial benefit or burden.

The Mar-Kit Landfill has no debt. Financing is provided by charges for services and appropriations from member counties. Kittson County contributed \$25,000 for recycling to the Landfill and received a profit sharing distribution of \$141,000 in 2015. 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:

Kittson County Administrator's Office  
P. O. Box 848  
Hallock, Minnesota 56728

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Northwest Minnesota Regional Radio Board

The Northwest Minnesota Regional Radio Board's convening meeting was held February 6, 2008, pursuant to the authority conferred upon the member parties by Minn. Stat. §§ 403.39 and 471.59, and includes the City of Moorhead and Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties.

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

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

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

The Northwest Minnesota Regional Radio Board has no long-term debt. Financing is provided by appropriations from member parties and by state and federal grants.

Complete financial information can be obtained from:

Northwest Minnesota Regional Radio Board  
c/o Greater Minnesota EMS  
2301 Johanneson Avenue Northwest  
Suite 103  
Bemidji, Minnesota 56601

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Northwest Service Cooperative

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

The NWSC is governed by a Board of Directors consisting of school board members elected at large by their peers, one city representative, with a maximum of three at-large appointees and three ex-officio superintendents. Adequate rates are charged so that the members do not experience additional benefit or burden.

Complete financial information can be obtained from:

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 (NCDPSA) was formed in 1994 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Becker, Beltrami, Clay, Hubbard, Kittson, Lake of the Woods, Mahnomon, Marshall, Pennington, Polk, Roseau, and Wadena Counties. The purpose of the NCDPSA is to provide a mechanism whereby the counties may cooperatively provide for a data procession disaster recovery plan and back-up system.

Control of the NCDPSA is vested in the NCDPSA Joint Powers Board, which is composed of one County Commissioner appointed by each member County Board. In the event of dissolution, the net position of the NCDPSA at that time are to be distributed to the respective member counties in proportion to their contributions.

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northwestern Counties Data Processing Security Association (Continued)

The NCDPSA has no long-term debt. Financing is provided by grants from the State of Minnesota and appropriations from member counties. Kittson County did not contribute to the NCDPSA for the year ended December 31, 2015. Clearwater County, in an agent capacity, reports the cash transactions of the NCDPSA as an agency fund on its financial statements.

Complete financial information can be obtained from:

Clearwater County Auditor/Treasurer's Office  
213 Main Avenue North  
Bagley, Minnesota 56621

Northwest Minnesota Household Hazardous Waste Management Group

Beltrami, Cass, Clearwater, Kittson, Lake of the Woods, Marshall, Pennington, Polk, Red Lake, and Roseau Counties entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of cooperatively managing, handling, and transporting household hazardous waste; providing public education on safe waste management; and providing for the disposition of non-recyclable household hazardous waste materials (the "Waste Management Group").

The governing body of the Waste Management Group is composed of one County Commissioner from each of the member counties. Responsibility for budgeted expenditures is shared, with 50 percent divided on a population-ratio basis. In the event of dissolution of the Waste Management Group, the net position is to be divided among the member counties in the same proportion as their respective financial responsibilities.

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Kittson County contributed \$4,913 to the Waste Management Group for the year ended December 31, 2015. Clearwater County, in an agent capacity, reports the cash transactions of the Waste Management Group as an agency fund on its financial statements.



**KITTSON COUNTY  
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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northwest Minnesota Household Hazardous Waste Management Group (Continued)

Separate financial information can be obtained from:

Waste Management Group  
P. O. Box 186  
Bagley, Minnesota 56621

Northwestern Minnesota Juvenile Center

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

Control of the Center is vested in the Northwestern Minnesota Juvenile Center Joint Powers Board, which is composed of at least one member appointed by each participating county, as provided in the Center's bylaws. At present, there are 13 directors: Beltrami, Cass, Hubbard, Pennington, and Roseau Counties have two directors each; the other member counties have one director each. In the event of dissolution, the net position of the Center will be divided among the member counties in the same proportion as their respective financial responsibilities.

Financing is provided by state and federal grants, charges for services, and appropriations from member counties. Adequate rates are charged so that the member counties do not experience any additional financial benefit or burden. Beltrami County, in an agent capacity, reports the cash transactions of the Northwestern Minnesota Juvenile Center as an agency fund on its financial statements.

Complete financial information can be obtained from:

Beltrami County Auditor/Treasurer's Office  
Beltrami County Courthouse  
P. O. Box 247  
Bemidji, Minnesota 56601

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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 Minn. Stat. § 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, the net position of the Health Service is to 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. Adequate rates are charged so that member counties do not experience any additional financial benefit or burden. 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 Auditors/Treasurer's Office or:

Quin County Community Health Service  
136 West Minnesota Avenue  
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 Minn. Stat. § 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.

**KITTSOON COUNTY  
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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Williams Mobile Relay Station (Continued)

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 position 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. Kittson County did not contribute to the Williams Mobile Relay Station in 2015.

Complete financial information can be obtained from:

Lake of the Woods County Auditor's Office  
206 - 8th Avenue Southeast  
Baudette, Minnesota 56623

C. Related Organizations

Joe River Watershed District

The Joe River Watershed District was formed pursuant to Minn. Stat. § 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.

**KITTSON COUNTY  
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6. Summary of Significant Contingencies and Other Items

C. Related Organizations (Continued)

Two Rivers Watershed District

The Two Rivers Watershed District was formed pursuant to Minn. Stat. § 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 of 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.

D. 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 Minn. Stat. § 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 Agreement.

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

Complete financial information can be obtained from:

Northwest Regional Development Commission  
115 South Main  
Warren, Minnesota 56762

**KITTSOON COUNTY  
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6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Kittson County Children's Collaborative

The Kittson County Children's Collaborative was established in 2000 pursuant to Minn. Stat. §§ 124D.23 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 Corrections; 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 obligations 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 2015, Kittson County did not contribute to the Collaborative.

Kittson Economic Development Authority (EDA)

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

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

**KITTSON COUNTY  
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6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Kittson Economic Development Authority (EDA) (Continued)

Financing is provided by revolving loans. Kittson County, in an agent capacity, reports the cash transactions of the Kittson EDA as an agency fund on the County's financial statements. During 2015, Kittson County contributed \$10,000 to assist in funding the operations of the EDA.

Minnesota Counties Computer Consortium

The Minnesota Counties Computer Consortium was formed in 1979, pursuant to Minn. Stat. § 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 Aitkin, Becker, Beltrami, Big Stone, Clay, Clearwater, Cottonwood, Douglas, Grant, Itasca, Kittson, Koochiching, Lake of the Woods, Mahnommen, Marshall, McLeod, Mille Lacs, Morrison, Norman, Pennington, Polk, Pope, Red Lake, Renville, Roseau, Stevens, Todd, Traverse, Wadena, Wantonwan, and Wilkin Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of 12 appointees, each with an alternate, who is appointed annually by each respective County Board. Kittson County's responsibility does not extend beyond making this appointment.

Northwest Minnesota Council of Collaboratives

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

**KITTSON COUNTY  
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6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Northwest Minnesota Council of Collaboratives (Continued)

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

Financing is provided by the collection of membership dues from the participating collaboratives and agency partners. Tri-County Community Corrections acts as fiscal agent for the Northwest Minnesota Council of Collaboratives and reports the cash transactions of the Council as an agency fund in its financial statements. During 2015, Kittson County did not contribute to the Council.

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 Minn. Stat. § 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 Minn. Stat. §§ 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, one member appointed by each participating city, and one additional member appointed by

**KITTSON COUNTY  
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6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Northwest Regional Library (Continued)

each county and city for each 6,000 of population or major percentage (85 percent) thereof. Kittson County appropriated \$63,000 to the Library for the year ended December 31, 2015.

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 105-220) 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 quantity, 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, comprising 18 members, with one representative from each of the seven counties, three members at large, and eight members representing local agencies. In the event of dissolution of the Northwest Workforce Service Area, unexpended funds will be disposed of in accordance with law.

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

Complete financial information can be obtained from:

Northwest Regional Development Commission  
115 South Main  
Warren, Minnesota 56762

Roseau River Watershed District

The Roseau River Watershed District was formed pursuant to Minn. Stat. § 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



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Roseau River Watershed District (Continued)

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.

7. North Kittson Rural Water System

In addition to those identified in Note 1, the County's discretely presented component unit has the following significant accounting policies.

A. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The North Kittson Rural Water System was established in 1982 pursuant to Minn. Stat. ch. 116A. 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 North Kittson Rural Water System provides water for participating rural users and cities within the water district.

The North Kittson Rural Water System is a component unit of Kittson County. Kittson County levies assessments to retire general obligation debt issued by the County to construct the water system.

Basis of Presentation

The North Kittson Rural Water System's operations are accounted for as an enterprise fund, with a set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses (i.e., the statement of net position and the statement of revenues, expenses, and changes in net position). Enterprise funds are used to account for (1) operations that provide a service to citizens financed primarily by charging users for that service; and (2) activities where periodic measurement of net income is considered appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**KITTSOON COUNTY  
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7. North Kittson Rural Water System

A. Description of Reporting Entity and Summary of Significant Accounting Policies  
(Continued)

Measurement Focus and Basis of Accounting

The 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.

When both restricted and unrestricted resources are available for use, it is North Kittson Rural Water System's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

1. Deposits and Investments

North Kittson Rural Water System's deposits and investments are held by both the Kittson County Administrator and the Water System. Minn. Stat. §§ 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 County Board. Minnesota statutes require that all North Kittson Rural Water System deposits be covered by insurance, surety bond, or collateral. Investment earnings for 2015 were \$3,007.

2. Receivables

Accounts receivable consist primarily of charges for services.

Due from other governments represents other local governments' share of a bond issue, the proceeds of which were used for the expansion of the North Kittson Rural Water System and improvements to the other governments' systems.

Special assessments receivable consist of the current principal amount due from participating water users payable in 2016, plus the principal amount of deferred assessments to be placed on the County tax rolls in future years and delinquent assessments. The current and prior special assessments receivable are restricted for debt repayment.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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7. North Kittson Rural Water System

A. Description of Reporting Entity and Summary of Significant Accounting Policies

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

2. Receivables (Continued)

The surcharge receivable is restricted for debt repayment.

All receivables are shown net of an allowance for uncollectible amounts, if applicable.

3. Capital Assets

Capital assets, which include land, distribution system, buildings and pumps, machinery and equipment, and tower reconditioning, are reported at cost. Capital assets have initial useful lives extending beyond two years. 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. Major renewals and improvements are charged to the property accounts, while maintenance and repairs which do not improve or extend the life of the assets are expensed.

The distribution system, buildings and pumps, machinery and equipment, and tower reconditioning are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Distribution system	25 - 100
Buildings and pumps	10 - 50
Machinery and equipment	5 - 20
Improvements other than buildings	20

4. Compensated Absences

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

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

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7. North Kittson Rural Water System

A. Description of Reporting Entity and Summary of Significant Accounting Policies

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

4. Compensated Absences (Continued)

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.

5. Long-Term Obligations

Long-term liabilities consist of vested compensated absences and general obligation bonds. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are immediately expensed.

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the Water System has deferred outflows related to pension obligations.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Water System has one item for reporting in this category: deferred inflows related to pension obligations.

**KITTSON COUNTY  
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7. North Kittson Rural Water System

A. Description of Reporting Entity and Summary of Significant Accounting Policies

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (Continued)

7. Net Position

Certain funds of the North Kittson Rural Water System are classified as restricted net position on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments.

8. Restatement of Beginning Net Position

GASB Statements 68 and 71 require the Water System to report its proportionate share of the Public Employees Retirement Association (PERA) total employers' unfunded liability. As a result, the net position as of December 31, 2014, has been restated to record the Water System's net position liability and deferred outflows of resources.

	<u>Amount</u>
Net position, December 31, 2014 as originally reported	\$ 11,803,070
Adjustment for GASB 68 and 71 implementation at December 31, 2014	<u>(121,605)</u>
Net position, beginning of year, as restated	<u>\$ 11,681,465</u>

9. Use of Estimates

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

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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7. North Kittson Rural Water System

A. Description of Reporting Entity and Summary of Significant Accounting Policies

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (Continued)

10. Revenues and Expenses

Operating revenues consist of charges for services. Nonoperating revenues consist of intergovernmental and surcharge revenues, special assessments, and investment income. Expenses are recognized when they are incurred.

B. Detailed Notes

Assets

1. Deposits and Investments

Reconciliations of the North Kittson Rural Water System's total deposits and investments to the County's basic financial statements as of December 31, 2015, are as follows:

	<u>Amount</u>
Cash and pooled investments	\$ 302,394
Cash and investments - pooled with County	79,672
Cash and cash equivalents held by County	70,000
Pooled investments for asset replacement	<u>1,386,782</u>
Total Cash and Investments - Exhibit 1	<u>\$ 1,838,848</u>

Deposits

The North Kittson Rural Water System is authorized by Minn. Stat. § 118A.04 to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board. Minn. Stat. § 118A.03 requires that all Water System deposits be covered by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit, plus accrued interest, at the close of the financial institution's banking day, not covered by insurance or bonds.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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7. North Kittson Rural Water System

B. Detailed Notes

Assets

1. Deposits and Investments

Deposits (Continued)

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better and revenue obligations rated “AA” or better; irrevocable standby 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 Water System’s deposits may not be returned to it. The Water System does not have a deposit policy for custodial credit risk. However, the Water System complies with Minnesota statutes in establishing authorized collateral for deposits. As of December 31, 2015, the Water System’s deposits were not exposed to custodial credit risk.

2. Receivables

Receivables as of December 31, 2015, including any applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts	\$ 56,948	\$ -
Due from other governments	451,307	392,000
Accrued interest - temporary	680	-
Special assessments	576,529	554,700
Surcharge for debt repayment	6,380	-
Total	\$ 1,091,844	\$ 946,700

**KITTSON COUNTY  
HALLOCK, MINNESOTA**

7. North Kittson Rural Water System

B. Detailed Notes

Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 108,045	\$ -	\$ -	\$ 108,045
Capital assets depreciated				
Distribution system	\$ 10,023,142	\$ -	\$ -	\$ 10,023,142
Buildings and pumps	4,127,714	-	-	4,127,714
Machinery and equipment	214,776	-	-	214,776
Improvements other than buildings	304,690	-	-	304,690
Total capital assets depreciated	\$ 14,670,322	\$ -	\$ -	\$ 14,670,322
Less: accumulated depreciation for				
Distribution system	\$ 2,997,752	\$ 116,371	\$ -	\$ 3,114,123
Buildings and pumps	1,547,944	109,930	-	1,657,874
Machinery and equipment	152,594	9,248	-	161,842
Improvements other than buildings	110,412	15,234	-	125,646
Total accumulated depreciation	\$ 4,808,702	\$ 250,783	\$ -	\$ 5,059,485
Total capital assets depreciated, net	\$ 9,861,620	\$ (250,783)	\$ -	\$ 9,610,837
Capital Assets, Net	\$ 9,969,665	\$ (250,783)	\$ -	\$ 9,718,882

4. Compensated Absences

Under Kittson County's personnel policies, the North Kittson Rural Water System's 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 leave and 150 days sick leave under Kittson County's personnel policy. Unused, accumulated vacation leave and vested sick leave is paid to employees upon termination.



**KITTSON COUNTY  
HALLOCK, MINNESOTA**

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7. North Kittson Rural Water System

B. Detailed Notes

Assets

4. Compensated Absences (Continued)

Unvested sick leave, valued at \$31,236 at December 31, 2015, is available to the Water System employees in the event of illness-related absences and is not paid to them at termination.

5. Long-Term Debt

General obligation debt comprises the following individual issues:

\$945,000 General Obligation Water Revenue Crossover Refunding Bonds, Series 2011A - dated August 18, 2011, due in installments of \$85,000 to \$105,000 through January 1, 2023, with a net interest rate of 2.666 percent. This debt is to refund the General Obligation Rural Water System Revenue Refunding Bonds of 2004 on the January 1, 2013, crossover date. The Water System reduced its total debt service payments by \$50,013 and realized an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$42,195. The new bonds were issued with a discount of \$5,658 and net issue costs of \$14,700. This debt is reported net of unamortized bond discount of \$3,602. \$ 681,398

\$425,000 General Obligation Refunding Bonds of 2009 - dated July 1, 2009, due in installments of \$55,000 to \$65,000 through 2016, with a 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 \$1,120. 63,880

Total \$ 745,278

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

7. North Kittson Rural Water System

B. Detailed Notes

Assets

5. Long-Term Debt (Continued)

Debt Service Requirements

Debt service requirements for the refunding bonds at December 31, 2015, were as follows:

Year Ending December 31	G. O. Water System Revenue Crossover Refunding Bonds, Series 2011A		G. O. Refunding Bonds of 2009		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 90,000	\$ 18,533	\$ 65,000	\$ 2,047	\$ 155,000	\$ 20,580
2017	95,000	16,507	-	-	95,000	16,507
2018	95,000	14,134	-	-	95,000	14,134
2019	100,000	11,758	-	-	100,000	11,758
2020	100,000	9,106	-	-	100,000	9,106
2021 - 2022	205,000	9,614	-	-	205,000	9,614
Total	\$ 685,000	\$ 79,652	\$ 65,000	\$ 2,047	\$ 750,000	\$ 81,699
Less: bond discount	(3,602)	-	(1,120)	-	(4,722)	-
Total	\$ 681,398	\$ 79,652	\$ 63,880	\$ 2,047	\$ 745,278	\$ 81,699

Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Refunding Bonds	\$ 120,000	\$ -	\$ 55,000	\$ 65,000	\$ 65,000
G.O. Water Revenue Crossover Refunding Bonds, Series 2011A	775,000	-	90,000	685,000	90,000
Less: bond discount	(6,356)	-	(1,634)	(4,722)	-
Compensated absences	36,759	24,502	18,708	42,553	12,145
Long-Term Liabilities	\$ 925,403	\$ 24,502	\$ 162,074	\$ 787,831	\$ 167,145

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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7. North Kittson Rural Water System (Continued)

C. Defined Benefit Pension Plan

Plan Description

The North Kittson Rural Water System participates in the following cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

All full-time and certain part-time employees of the North Kittson Rural Water System are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1.0 percent increases.

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

**KITTSON COUNTY  
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7. North Kittson Rural Water System

C. Defined Benefit Pension Plan

Benefits Provided (Continued)

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for GERF's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

Contributions

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

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2015. The North Kittson Rural Water System was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2015. The North Kittson Rural Water System's contributions to the GERF for the year ended December 31, 2015, were \$11,317. The North Kittson Rural Water System's contributions were equal to the required contributions as set by state statute.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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7. North Kittson Rural Water System

C. Defined Benefit Pension Plan (Continued)

Pension Costs

At December 31, 2015, the North Kittson Rural Water System reported a liability of \$135,213 for its proportionate share of the GERS's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Water System's proportion of the net pension liability was based on the North Kittson Rural Water System's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the North Kittson Rural Water System's proportion was 0.0025 percent.

For the year ended December 31, 2015, the North Kittson Rural Water System recognized pension expense of \$14,490 for its proportionate share of the GERS's pension expense.

At December 31, 2015, the North Kittson Rural Water System reported its proportionate share of the GERS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 6,532
Difference between projected and actual investment Earnings	12,265	-
Changes in proportion	-	7,046
Contributions paid to PERA subsequent to the measurement date	<u>5,658</u>	<u>-</u>
Total	<u>\$ 17,923</u>	<u>\$ 13,578</u>

**KITTSOON COUNTY  
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7. North Kittson Rural Water System

C. Defined Benefit Pension Plan

Pension Costs (Continued)

The \$5,658 reported as deferred outflows of resources related to pensions resulting from the North Kittson Rural Water System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2016	\$ (873)
2017	(873)
2018	(874)
2019	1,307

Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males and females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1.0 percent effective every January 1 through 2026 and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

There were no changes in actuarial assumptions in 2015.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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7. North Kittson Rural Water System

C. Defined Benefit Pension Plan

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative investments	20	6.40
Cash	2	0.50

Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents the North Kittson Rural Water System's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the North Kittson Rural Water

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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7. North Kittson Rural Water System

C. Defined Benefit Pension Plan

Pension Liability Sensitivity (Continued)

System's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
North Kittson Rural Water System's proportionate share of the GERF net pension liability	\$ 203,719	\$ 129,563	\$ 68,321

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

D. Summary of Significant Contingencies and Other Items

Claims and Litigation

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

Risk Management

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



**REQUIRED SUPPLEMENTARY INFORMATION**

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**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT A-1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,253,236	\$ 2,253,236	\$ 2,158,818	\$ (94,418)
Licenses and permits	7,750	7,750	9,673	1,923
Intergovernmental	850,978	850,978	812,761	(38,217)
Charges for services	123,548	123,548	127,123	3,575
Fines and forfeits	5,000	5,000	3,950	(1,050)
Investment earnings	50,650	50,650	83,620	32,970
Miscellaneous	177,315	177,315	236,230	58,915
<b>Total Revenues</b>	<b>\$ 3,468,477</b>	<b>\$ 3,468,477</b>	<b>\$ 3,432,175</b>	<b>\$ (36,302)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 191,948	\$ 191,948	\$ 174,754	\$ 17,194
District court	15,300	15,300	30,195	(14,895)
Law library	6,500	6,500	8,397	(1,897)
County administration	408,431	408,431	407,869	562
County assessor	291,682	291,682	290,723	959
Elections	5,500	5,500	3,352	2,148
Professional services	19,050	19,050	15,360	3,690
Data processing	185,000	185,000	112,157	72,843
Attorney	97,265	97,265	90,362	6,903
Recorder	144,428	144,428	145,273	(845)
Planning and zoning	33,954	33,954	25,445	8,509
Surveyor	2,000	2,000	3,137	(1,137)
Buildings and grounds	217,789	217,789	239,536	(21,747)
GIS/LIS	5,000	5,000	3,574	1,426
Veterans service officer	31,717	31,717	40,135	(8,418)
Insurance	46,725	46,725	48,805	(2,080)
Other general government	52,030	52,030	49,222	2,808
<b>Total general government</b>	<b>\$ 1,754,319</b>	<b>\$ 1,754,319</b>	<b>\$ 1,688,296</b>	<b>\$ 66,023</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 803,530	\$ 842,053	\$ 831,821	\$ 10,232
Boat and water safety	500	500	-	500
Community corrections	226,338	226,338	209,469	16,869
Coroner	9,104	9,104	9,104	-
Enhanced 911	54,600	54,600	45,213	9,387
Emergency management	46,659	46,659	50,390	(3,731)
Fire protection	500	500	500	-
Local emergency planning commission	1,000	1,000	917	83
Operation Stonegarden	97,547	97,547	27,038	70,509
Probation and parole	30,000	30,000	29,850	150
Safety committee	5,580	5,580	4,425	1,155
Transmission tower	7,500	7,500	3,608	3,892
Victim assistance	-	-	53	(53)
Other public safety	5,000	5,000	-	5,000
<b>Total public safety</b>	<b>\$ 1,287,858</b>	<b>\$ 1,326,381</b>	<b>\$ 1,212,388</b>	<b>\$ 113,993</b>
<b>Sanitation</b>				
Recycling	\$ 65,835	\$ 65,835	\$ 65,807	\$ 28
Solid waste	8,535	8,535	7,312	1,223
<b>Total sanitation</b>	<b>\$ 74,370</b>	<b>\$ 74,370</b>	<b>\$ 73,119</b>	<b>\$ 1,251</b>
<b>Health</b>				
Ambulance	\$ 27,312	\$ 27,312	\$ 27,312	\$ -
Hospice	7,500	7,500	7,500	-
Kittson wellness	1,450	1,450	1,308	142
<b>Total health</b>	<b>\$ 36,262</b>	<b>\$ 36,262</b>	<b>\$ 36,120</b>	<b>\$ 142</b>
<b>Culture and recreation</b>				
Historical society	\$ 56,540	\$ 56,540	\$ 56,540	\$ -
Regional library	63,000	63,000	63,000	-
Snowmobile and ski trails	-	-	103,017	(103,017)
Veterans organizations	500	500	500	-
<b>Total culture and recreation</b>	<b>\$ 120,040</b>	<b>\$ 120,040</b>	<b>\$ 223,057</b>	<b>\$ (103,017)</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Conservation of natural resources</b>				
Agricultural inspection	\$ 10,300	\$ 10,300	\$ 10,300	\$ -
Agricultural society	22,500	22,500	22,500	-
Aquatic invasive species	-	-	9,861	(9,861)
County extension	108,117	108,117	105,777	2,340
Predator and weed control	3,200	3,200	2,813	387
Soil and water conservation	47,247	47,247	42,454	4,793
Water planning	61,520	61,520	38,417	23,103
<b>Total conservation of natural resources</b>	<b>\$ 252,884</b>	<b>\$ 252,884</b>	<b>\$ 232,122</b>	<b>\$ 20,762</b>
<b>Economic development</b>				
Kittson Office of Economic Development	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Minnesota Red River Valley Development Authority	-	-	800	(800)
Tax abatement	120,000	120,000	106,374	13,626
Other economic development	-	-	1,000	(1,000)
<b>Total economic development</b>	<b>\$ 130,000</b>	<b>\$ 130,000</b>	<b>\$ 118,174</b>	<b>\$ 11,826</b>
<b>Total Expenditures</b>	<b>\$ 3,655,733</b>	<b>\$ 3,694,256</b>	<b>\$ 3,583,276</b>	<b>\$ 110,980</b>
<b>Net Change in Fund Balance</b>	<b>\$ (187,256)</b>	<b>\$ (225,779)</b>	<b>\$ (151,101)</b>	<b>\$ 74,678</b>
<b>Fund Balance - January 1</b>	<b>4,888,019</b>	<b>4,888,019</b>	<b>4,888,019</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,700,763</b>	<b>\$ 4,662,240</b>	<b>\$ 4,736,918</b>	<b>\$ 74,678</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 715,482	\$ 715,482	\$ 692,123	\$ (23,359)
Intergovernmental	5,239,567	5,239,567	5,544,792	305,225
Charges for services	596,000	596,000	522,421	(73,579)
Miscellaneous	33,575	33,575	11,880	(21,695)
<b>Total Revenues</b>	<b>\$ 6,584,624</b>	<b>\$ 6,584,624</b>	<b>\$ 6,771,216</b>	<b>\$ 186,592</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 460,158	\$ 460,158	\$ 430,835	\$ 29,323
Engineering	455,590	455,590	440,812	14,778
Maintenance	1,496,174	1,496,174	1,628,256	(132,082)
Construction	3,633,973	3,633,973	1,991,684	1,642,289
Equipment maintenance and shop	561,729	561,729	463,967	97,762
<b>Total highways and streets</b>	<b>\$ 6,607,624</b>	<b>\$ 6,607,624</b>	<b>\$ 4,955,554</b>	<b>\$ 1,652,070</b>
<b>Intergovernmental</b>				
Highways and streets	-	-	502,438	(502,438)
<b>Total Expenditures</b>	<b>\$ 6,607,624</b>	<b>\$ 6,607,624</b>	<b>\$ 5,457,992</b>	<b>\$ 1,149,632</b>
<b>Net Change in Fund Balance</b>	<b>\$ (23,000)</b>	<b>\$ (23,000)</b>	<b>\$ 1,313,224</b>	<b>\$ 1,336,224</b>
<b>Fund Balance - January 1</b>	<b>(247,166)</b>	<b>(247,166)</b>	<b>(247,166)</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>(45,316)</b>	<b>(45,316)</b>
<b>Fund Balance - December 31</b>	<b>\$ (270,166)</b>	<b>\$ (270,166)</b>	<b>\$ 1,020,742</b>	<b>\$ 1,290,908</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT A-3*

**BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 778,324	\$ 778,324	\$ 731,027	\$ (47,297)
Intergovernmental	505,496	505,496	717,008	211,512
Charges for services	70,010	70,010	85,604	15,594
Miscellaneous	81,950	81,950	56,119	(25,831)
<b>Total Revenues</b>	<b>\$ 1,435,780</b>	<b>\$ 1,435,780</b>	<b>\$ 1,589,758</b>	<b>\$ 153,978</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 475,013	\$ 475,013	\$ 533,146	\$ (58,133)
Social services	960,767	960,767	877,083	83,684
<b>Total Expenditures</b>	<b>\$ 1,435,780</b>	<b>\$ 1,435,780</b>	<b>\$ 1,410,229</b>	<b>\$ 25,551</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 179,529</b>	<b>\$ 179,529</b>
<b>Fund Balance - January 1</b>	<b>1,370,426</b>	<b>1,370,426</b>	<b>1,370,426</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,370,426</b>	<b>\$ 1,370,426</b>	<b>\$ 1,549,955</b>	<b>\$ 179,529</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT A-4**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2015**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2015	\$ -	\$ 365,032	\$ 365,032	0.0%	\$ 3,096,721	11.8%

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



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT A-5*

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PERA GENERAL EMPLOYEES RETIREMENT FUND  
DECEMBER 31, 2015**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>Covered Payroll (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2015	0.0462%	\$ 2,061,274	\$ 2,220,800	92.82%	78.19%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT A-6*

**SCHEDULE OF CONTRIBUTIONS  
PERA GENERAL EMPLOYEES RETIREMENT FUND  
DECEMBER 31, 2015**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
2015	\$ 169,068	\$ 169,068	\$ -	\$ 2,254,240	7.50%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT A-7*

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND  
DECEMBER 31, 2015**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>Covered Payroll (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2015	0.042%	\$ 477,218	\$ 388,286	122.90%	86.61%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT A-8*

**SCHEDULE OF CONTRIBUTIONS  
PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND  
DECEMBER 31, 2015**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
2015	\$ 60,842	\$ 60,842	\$ -	\$ 375,568	16.20%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT A-9*

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PERA PUBLIC EMPLOYEES CORRECTIONAL FUND  
DECEMBER 31, 2015**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>Covered Payroll (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2015	0.15%	\$ 23,190	\$ 267,669	8.66%	96.95%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT A-10*

**SCHEDULE OF CONTRIBUTIONS  
PERA PUBLIC EMPLOYEES CORRECTIONAL FUND  
DECEMBER 31, 2015**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
2015	\$ 23,478	\$ 23,478	\$ -	\$ 268,320	8.75%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

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**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2015

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end.

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

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

2. Excess of Expenditures Over Budget

The following departments had expenditures in excess of budget for the year ended December 31, 2015.

	Expenditures	Final Budget	Excess
General Fund			
Current			
General government			
District court	\$ 30,195	\$ 15,300	\$ (14,895)
Law library	8,397	6,500	(1,897)
Recorder	145,273	144,428	(845)
Surveyor	3,137	2,000	(1,137)
Buildings and grounds	239,536	217,789	(21,747)
Veterans service officer	40,135	31,717	(8,418)
Insurance	48,805	46,725	(2,080)
Public safety			
Emergency management	50,390	46,659	(3,731)
Victim assistance	53	-	(53)
Culture and recreation			
Snowmobile and ski trails	103,017	-	(103,017)

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

2. Excess of Expenditures Over Budget (Continued)

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund			
Current (Continued)			
Conservation of natural resources			
Aquatic invasive species	9,861	-	(9,861)
Economic development			
Minnesota Red River Valley Development Authority	800	-	(800)
Other economic development	1,000	-	(1,000)
Road and Bridge Special Revenue Fund			
Current			
Highways and streets			
Maintenance	1,628,256	1,496,174	(132,082)
Intergovernmental			
Highways and streets	502,438	-	(502,438)
Social Services Special Revenue Fund			
Current			
Human services			
Income maintenance	533,146	475,013	(58,133)

3. Other Postemployment Benefits

Governmental Accounting Standards Board Statement 45 requires a Schedule of Funding Progress - Other Postemployment Benefits for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported. For the first time, in 2015, Kittson County used actuarial assistance in the preparation of the other postemployment benefits liability and disclosure information using the alternative measurement method. Due to significant differences from the amounts presented in previous years, only one year is presented. Additional years will be provided as the information is available.

Significant Actuarial Assumptions

2015

Actuarial Assumptions

- The health care trend rates anticipate short-term and long-term medical increases.
- The discount rate is 4 percent

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

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3. Other Postemployment Benefits

Significant Actuarial Assumptions

2015

Actuarial Assumptions (Continued)

- The percentage of active employees who are assumed to be married is 85 percent for males and 65 percent for females, with males assumed to be three years older than females.
- The percentage of future retirees who are assumed to continue on the County's medical plan post-employment is 50 percent.
- The percentage of future spouses of retirees who are assumed to continue on the County's medical plan post-employment is 25 percent.
- The mortality table used was the RP-2014 White Collar mortality table with MP-2014 Generational Improvement Scale (Blue Collar Tables for Police and Fire Personnel).
- Retirement and withdrawal assumptions are used similar to those used to value pension liabilities for Minnesota public employees. The state pension plans base their assumptions on periodic experience studies.

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**SUPPLEMENTARY INFORMATION**

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**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

The Forfeited Tax Sale Fund is used to account for and report proceeds from the sale or rental of lands forfeited to the State of Minnesota pursuant to Minn. Stat. ch. 282. The net proceeds, after deducting allowable expenses, are restricted to various County funds and taxing districts. Titles to the tax-forfeited lands remain with the state until the lands are sold by the County.

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

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**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT B-1*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS  
DECEMBER 31, 2015**

	<b>Ditch</b>	<b>Forfeited Tax Sale</b>	<b>Unorganized Townships</b>	<b>Total (Exhibit 3)</b>
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 502,271	\$ 10	\$ 224,935	\$ 727,216
Taxes receivable - delinquent	-	-	330	330
Special assessments receivable - delinquent	551	-	-	551
Due from other governments	4,900	-	-	4,900
<b>Total Assets</b>	<b>\$ 507,722</b>	<b>\$ 10</b>	<b>\$ 225,265</b>	<b>\$ 732,997</b>
 <b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 1,130	\$ -	\$ -	\$ 1,130
Due to other funds	2,766	-	1,780	4,546
Due to other governments	167	126	-	293
Advances from other funds	19,100	46,143	-	65,243
<b>Total Liabilities</b>	<b>\$ 23,163</b>	<b>\$ 46,269</b>	<b>\$ 1,780</b>	<b>\$ 71,212</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue	<b>\$ 218</b>	<b>\$ -</b>	<b>\$ 160</b>	<b>\$ 378</b>
<b>Fund Balances</b>				
Restricted for				
Conservation of natural resources	\$ 503,155	\$ -	\$ -	\$ 503,155
Assigned to				
Unorganized townships	-	-	223,325	223,325
Unassigned	(18,814)	(46,259)	-	(65,073)
<b>Total Fund Balances</b>	<b>\$ 484,341</b>	<b>\$ (46,259)</b>	<b>\$ 223,325</b>	<b>\$ 661,407</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 507,722</b>	<b>\$ 10</b>	<b>\$ 225,265</b>	<b>\$ 732,997</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT B-2*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Ditch</u>	<u>Forfeited Tax Sale</u>	<u>Unorganized Townships</u>	<u>Total (Exhibit 5)</u>
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ 33,920	\$ 33,920
Special assessments	58,919	-	-	58,919
Intergovernmental	-	-	34,845	34,845
Charges for services	10,355	-	-	10,355
Miscellaneous	-	19,794	5	19,799
<b>Total Revenues</b>	<b>\$ 69,274</b>	<b>\$ 19,794</b>	<b>\$ 68,770</b>	<b>\$ 157,838</b>
<b>Expenditures</b>				
<b>Current</b>				
Public safety	\$ -	\$ -	\$ 6,082	\$ 6,082
Highways and streets	-	-	60,441	60,441
Conservation of natural resources	96,592	511	-	97,103
<b>Total Expenditures</b>	<b>\$ 96,592</b>	<b>\$ 511</b>	<b>\$ 66,523</b>	<b>\$ 163,626</b>
<b>Net Change in Fund Balance</b>	<b>\$ (27,318)</b>	<b>\$ 19,283</b>	<b>\$ 2,247</b>	<b>\$ (5,788)</b>
<b>Fund Balance - January 1</b>	<b>511,659</b>	<b>(65,542)</b>	<b>221,078</b>	<b>667,195</b>
<b>Fund Balance - December 31</b>	<b>\$ 484,341</b>	<b>\$ (46,259)</b>	<b>\$ 223,325</b>	<b>\$ 661,407</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT B-3*

**BUDGETARY COMPARISON SCHEDULE  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Special assessments	\$ 58,500	\$ 58,500	\$ 58,919	\$ 419
Charges for services	-	-	10,355	10,355
<b>Total Revenues</b>	<b>\$ 58,500</b>	<b>\$ 58,500</b>	<b>\$ 69,274</b>	<b>\$ 10,774</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Drainage ditches	15,500	15,500	96,592	(81,092)
<b>Net Change in Fund Balance</b>	<b>\$ 43,000</b>	<b>\$ 43,000</b>	<b>\$ (27,318)</b>	<b>\$ (70,318)</b>
<b>Fund Balance - January 1</b>	<b>511,659</b>	<b>511,659</b>	<b>511,659</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 554,659</b>	<b>\$ 554,659</b>	<b>\$ 484,341</b>	<b>\$ (70,318)</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT B-4*

**BUDGETARY COMPARISON SCHEDULE  
FORFEITED TAX SALE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Miscellaneous	\$ 18,000	\$ 18,000	\$ 19,794	\$ 1,794
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Forfeited land	1,300	1,300	511	789
<b>Net Change in Fund Balance</b>	<b>\$ 16,700</b>	<b>\$ 16,700</b>	<b>\$ 19,283</b>	<b>\$ 2,583</b>
<b>Fund Balance - January 1</b>	<b>(65,542)</b>	<b>(65,542)</b>	<b>(65,542)</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ (48,842)</b>	<b>\$ (48,842)</b>	<b>\$ (46,259)</b>	<b>\$ 2,583</b>



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT B-5*

**BUDGETARY COMPARISON SCHEDULE  
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 53,300	\$ 53,300	\$ 33,920	\$ (19,380)
Intergovernmental	10,500	10,500	34,845	24,345
Miscellaneous	3,500	3,500	5	(3,495)
<b>Total Revenues</b>	<b>\$ 67,300</b>	<b>\$ 67,300</b>	<b>\$ 68,770</b>	<b>\$ 1,470</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Public safety</b>				
Fire protection	\$ 5,900	\$ 5,900	\$ 6,082	\$ (182)
<b>Highways and streets</b>				
Township roads	61,000	61,000	60,441	559
<b>Total Expenditures</b>	<b>\$ 66,900</b>	<b>\$ 66,900</b>	<b>\$ 66,523</b>	<b>\$ 377</b>
<b>Net Change in Fund Balance</b>	<b>\$ 400</b>	<b>\$ 400</b>	<b>\$ 2,247</b>	<b>\$ 1,847</b>
<b>Fund Balance - January 1</b>	<b>221,078</b>	<b>221,078</b>	<b>221,078</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 221,478</b>	<b>\$ 221,478</b>	<b>\$ 223,325</b>	<b>\$ 1,847</b>

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**FIDUCIARY FUNDS**

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**KITTSON COUNTY  
HALLOCK, MINNESOTA**

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 disbursement 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 disbursement 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 the 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 disbursement of funds for the watershed ditches.

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

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**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT C-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<b>Balance January 1 (Reclassified) Note 1.E.2. and Note 1.E.4.</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>AGENCY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 23,142	\$ 5,189,285	\$ 5,178,867	\$ 33,560
<b><u>Liabilities</u></b>				
Due to other governments	\$ 23,142	\$ 5,189,285	\$ 5,178,867	\$ 33,560
 <b><u>FLEXIBLE BENEFITS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 6,009	\$ 21,278	\$ 21,096	\$ 6,191
<b><u>Liabilities</u></b>				
Accounts payable	\$ 6,009	\$ 21,278	\$ 21,096	\$ 6,191
 <b><u>KITTSOON COUNTY CHILDREN'S COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 17,448	\$ 5,143	\$ 3,392	\$ 19,199
<b><u>Liabilities</u></b>				
Due to other governments	\$ 17,448	\$ 5,143	\$ 3,392	\$ 19,199

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<b>Balance January 1 (Reclassified) Note 1.E.2. and Note 1.E.4.</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>KITTSOON COUNTY ECONOMIC DEVELOPMENT AUTHORITY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 139,218</u>	<u>\$ 66,992</u>	<u>\$ 14,802</u>	<u>\$ 191,408</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 139,218</u>	<u>\$ 66,992</u>	<u>\$ 14,802</u>	<u>\$ 191,408</u>
 <b><u>KITTSOON-MARSHALL RURAL WATER SYSTEM</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 1,196</u>	<u>\$ 656</u>	<u>\$ -</u>	<u>\$ 1,852</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 1,196</u>	<u>\$ 656</u>	<u>\$ -</u>	<u>\$ 1,852</u>
 <b><u>MAR-KIT LANDFILL</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 4,161,574</u>	<u>\$ 2,728,212</u>	<u>\$ 3,932,442</u>	<u>\$ 2,957,344</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 4,161,574</u>	<u>\$ 2,728,212</u>	<u>\$ 3,932,442</u>	<u>\$ 2,957,344</u>



**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<b>Balance January 1 (Reclassified) Note 1.E.2. and Note 1.E.4.</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 13,118	\$ 1,914,299	\$ 1,907,121	\$ 20,296
<b><u>Liabilities</u></b>				
Due to other governments	\$ 13,118	\$ 1,914,299	\$ 1,907,121	\$ 20,296
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 170,175	\$ 10,137,529	\$ 10,112,806	\$ 194,898
<b><u>Liabilities</u></b>				
Due to other governments	\$ 170,175	\$ 10,137,529	\$ 10,112,806	\$ 194,898
 <b><u>WATERSHED DITCH</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 134,297	\$ 134,297	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 134,297	\$ 134,297	\$ -

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<b>Balance January 1 (Reclassified) Note 1.E.2. and Note 1.E.4.</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>HEALTH INSURANCE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 4,940	\$ 669,529	\$ 616,805	\$ 57,664
<b><u>Liabilities</u></b>				
Accounts payable	\$ 4,940	\$ 669,529	\$ 616,805	\$ 57,664
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 4,536,820	\$ 20,867,220	\$ 21,921,628	\$ 3,482,412
<b><u>Liabilities</u></b>				
Accounts payable	\$ 10,949	\$ 690,807	\$ 637,901	\$ 63,855
Due to other governments	4,525,871	20,176,413	21,283,727	3,418,557
<b>Total Liabilities</b>	<b>\$ 4,536,820</b>	<b>\$ 20,867,220</b>	<b>\$ 21,921,628</b>	<b>\$ 3,482,412</b>

## **OTHER SCHEDULES**

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**BALANCE SHEET - BY DITCH  
DITCH SPECIAL REVENUE FUND  
DECEMBER 31, 2015**

	Assets				Accounts Payable	Due to Other Funds
	Cash	Special Assessments Receivable - Delinquent	Due from Other Governments	Total		
<b>County Ditches</b>						
1	\$ 47,134	\$ -	\$ -	\$ 47,134	\$ -	\$ -
4	10,429	6	-	10,435	-	-
8	10,394	-	-	10,394	-	-
9	14,342	-	-	14,342	-	-
11	10,074	-	-	10,074	-	227
12	2,212	-	-	2,212	-	-
13	84	-	-	84	250	-
14	8,446	-	-	8,446	-	130
15	2,194	53	-	2,247	320	-
16	47,497	-	-	47,497	-	-
17	15,127	-	-	15,127	-	-
18	11,967	16	-	11,983	-	-
19	16,210	-	-	16,210	-	-
20	4,583	-	-	4,583	-	-
21	9,723	-	-	9,723	-	-
22	25,479	-	-	25,479	-	78
23	1,197	7	-	1,204	80	-
25	74	-	-	74	-	-
26	10,951	-	-	10,951	-	-
27	25,657	-	-	25,657	-	-
28	16,740	-	-	16,740	-	-
29	20,532	-	-	20,532	-	-
30	5,922	-	-	5,922	-	-
31	23,992	-	-	23,992	-	-
33	6,735	-	-	6,735	-	-
<b>Joint County Ditches</b>						
31	110	24	-	134	-	-
32	3,714	-	-	3,714	-	-
33	11,581	-	3	11,584	-	-
<b>State Ditches</b>						
1	17,627	-	-	17,627	-	-
48R	5,376	17	-	5,393	-	-
50	9,594	-	105	9,699	200	-
72	21,625	25	2,950	24,600	120	1,516
84	(4,181)	69	-	(4,112)	-	-
85	22,734	-	-	22,734	-	815
90	13,071	198	1,424	14,693	-	-
95	53,325	136	418	53,879	160	-
<b>Total</b>	<b>\$ 502,271</b>	<b>\$ 551</b>	<b>\$ 4,900</b>	<b>\$ 507,722</b>	<b>\$ 1,130</b>	<b>\$ 2,766</b>

**EXHIBIT D-1**

<b>Liabilities</b>			<b>Deferred Inflows of Resources</b>	<b>Fund Balances</b>			<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>
<b>Due to Other Governments</b>	<b>Advances from Other Funds</b>	<b>Total</b>		<b>Restricted for Ditch Maintenance and Construction</b>	<b>Unassigned</b>	<b>Total</b>	
\$ -	\$ -	\$ -	\$ -	\$ 47,134	\$ -	\$ 47,134	\$ 47,134
-	-	-	6	10,429	-	10,429	10,435
-	-	-	-	10,394	-	10,394	10,394
-	-	-	-	14,342	-	14,342	14,342
-	-	227	-	9,847	-	9,847	10,074
-	-	-	-	2,212	-	2,212	2,212
-	5,100	5,350	-	-	(5,266)	(5,266)	84
-	-	130	-	8,316	-	8,316	8,446
-	-	320	-	1,927	-	1,927	2,247
-	-	-	-	47,497	-	47,497	47,497
-	-	-	-	15,127	-	15,127	15,127
-	-	-	-	11,983	-	11,983	11,983
-	-	-	-	16,210	-	16,210	16,210
-	-	-	-	4,583	-	4,583	4,583
-	-	-	-	9,723	-	9,723	9,723
-	-	78	-	25,401	-	25,401	25,479
-	-	80	-	1,124	-	1,124	1,204
-	2,300	2,300	-	-	(2,226)	(2,226)	74
-	-	-	-	10,951	-	10,951	10,951
-	-	-	-	25,657	-	25,657	25,657
-	-	-	-	16,740	-	16,740	16,740
-	-	-	-	20,532	-	20,532	20,532
-	-	-	-	5,922	-	5,922	5,922
-	-	-	-	23,992	-	23,992	23,992
-	-	-	-	6,735	-	6,735	6,735
-	7,300	7,300	24	-	(7,190)	(7,190)	134
-	-	-	-	3,714	-	3,714	3,714
-	-	-	-	11,584	-	11,584	11,584
-	-	-	-	17,627	-	17,627	17,627
-	-	-	15	5,378	-	5,378	5,393
-	-	200	-	9,499	-	9,499	9,699
-	4,400	6,036	25	18,539	-	18,539	24,600
-	-	-	20	-	(4,132)	(4,132)	(4,112)
-	-	815	-	21,919	-	21,919	22,734
167	-	167	7	14,519	-	14,519	14,693
-	-	160	121	53,598	-	53,598	53,879
<b>\$ 167</b>	<b>\$ 19,100</b>	<b>\$ 23,163</b>	<b>\$ 218</b>	<b>\$ 503,155</b>	<b>\$ (18,814)</b>	<b>\$ 484,341</b>	<b>\$ 507,722</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

*EXHIBIT D-2*

**BALANCE SHEET - BY UNORGANIZED TOWNSHIP  
UNORGANIZED TOWNSHIPS SPECIAL REVENUE FUND  
DECEMBER 31, 2015**

	<b>Klondike</b>	<b>McKinley</b>	<b>North Red River</b>	<b>Peatland</b>	<b>Total</b>
<b><u>Assets</u></b>					
<b>Current assets</b>					
Cash and pooled investments	\$ 15,639	\$ 35,322	\$ 114,810	\$ 59,164	\$ 224,935
Taxes receivable - delinquent	94	20	153	63	330
<b>Total Assets</b>	<b>\$ 15,733</b>	<b>\$ 35,342</b>	<b>\$ 114,963</b>	<b>\$ 59,227</b>	<b>\$ 225,265</b>
 <b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>					
<b>Liabilities</b>					
Due to other funds	\$ 530	\$ 525	\$ 650	\$ 75	\$ 1,780
<b>Deferred Inflows of Resources</b>					
Unavailable revenue - taxes	94	20	-	46	160
<b>Fund Balances</b>					
Assigned to					
Unorganized townships	15,109	34,797	114,313	59,106	223,325
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 15,733</b>	<b>\$ 35,342</b>	<b>\$ 114,963</b>	<b>\$ 59,227</b>	<b>\$ 225,265</b>

**KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**EXHIBIT D-3**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**Shared Revenue**

**State**

Highway users tax	\$ 4,700,991
State gas tax	19,419
County program aid	105,648
PERA rate reimbursement	13,874
Disparity reduction aid	4,457
Aquatic invasive species aid	19,661
Police aid	39,878
Enhanced 911	74,183
Market value credit	116,627
	116,627

**Total shared revenue** **\$ 5,094,738**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$ 144,469
	144,469

**Payments**

**Local**

Mar-Kit Landfill	\$ 141,000
Payments in lieu of taxes	188,448
	188,448

**Total payments** **\$ 329,448**

**Grants**

**State**

Minnesota Department/Board of Human Services	\$ 235,199
Veterans Affairs	7,500
Corrections	6,687
Natural Resources	65,653
Water and Soil Resources	53,453
Transportation	799,376
Peace Officer Standards and Training Board	1,999
Pollution Control Agency	7,500
	7,500

**Total state** **\$ 1,177,367**

**Federal**

Department of Agriculture	\$ 44,375
Health and Human Services	283,303
Homeland Security	35,706
	35,706

**Total federal** **\$ 363,384**

**Total state and federal grants** **\$ 1,540,751**

**Total Intergovernmental Revenue** **\$ 7,109,406**

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REBECCA OTTO  
STATE AUDITOR

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

### Independent Auditor's Report

Board of County Commissioners  
Kittson County  
Hallock, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated April 19, 2018. Our report includes a reference to other auditors who audited the financial statements of the North Kittson Rural Water System, a discretely presented component unit, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Kittson County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other items that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 2015-001 and 2015-002 to be material weaknesses and items 1996-001, 2007-001, and 2015-003 through 2015-006 to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Kittson County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness and tax increment financing because Kittson County has no debt and administers no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Kittson County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Recommendations as items 2015-007 through 2015-009. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

### **Other Matters**

Included in the Schedule of Findings and Recommendations is a management practices comment. We believe this recommendation to be of benefit to the County, and it is reported for that purpose.

### **Kittson County's Response to Findings**

Kittson County's responses to the internal control, legal compliance, and management practices findings identified in our audit are described in the Corrective Action Plan. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We noted certain matters that we reported to management of Kittson County in a separate letter dated April 19, 2018.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

April 19, 2018

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**KITTSON COUNTY  
HALLOCK, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 1996-001

Segregation of Duties

**Criteria:** Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect County assets, proper segregation of the record-keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

**Condition:** The limited number of personnel within several Kittson County offices results in a lack of segregation of accounting duties necessary to ensure adequate internal accounting control. The smaller offices that collect fees generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts, as well as reconciling bank accounts.

**Context:** 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 internal control point of view.

**Effect:** Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in a timely period by employees in the normal course of performing their assigned functions.

**Cause:** Due to limited economic resources, the County informed us that it is impractical to hire enough staff to achieve a desirable level of segregation of duties in every department.

**Recommendation:** We recommend Kittson County's elected officials and management be mindful that limited staffing increases the risks in safeguarding the County's assets and the proper recording of its financial activity and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

**View of Responsible Official:** Concur

Finding Number 2007-001

Documenting and Monitoring Internal Controls

**Criteria:** County management is responsible for developing and monitoring its internal controls. An essential element of monitoring controls includes documenting the County's accounting policies and procedures and performing a risk assessment of existing controls over significant functions of the accounting system used to produce financial information for members of the County Board, management, and for external financial reporting. Written policies and procedures should exist to ensure the County's practices are followed as intended by management. The risk assessment is intended to determine if the internal controls established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided. Significant functions to be addressed would include areas such as cash and investment activities; major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items); expenditure processing, including new vendor setup; and payroll.

**Condition:** The County has documented policies relating to capital assets, fund balance, credit card purchases, and employment policies. The County also has an investment policy, but it does not accurately reflect investment custodial credit risk as defined by accounting standards, which require separate and different application between deposits and investments. However, the County lacks written policies and procedures over other significant functions. In addition, there are no formal risk assessment and monitoring procedures in place to determine if the internal controls established by County management are still effective or if changes are needed to maintain a sound internal control structure.

**Context:** While internal controls may be established, it is not uncommon in operations the size of Kittson County to fail to periodically review those controls. Monitoring of internal controls is necessary to ensure they are in place, appropriate, and operating effectively.

**Effect:** Without comprehensive accounting policies and procedures over all significant functions, including risk assessment and monitoring procedures, there is an increased risk that the County's practices may not be followed as intended by management, employees may not understand the purpose of internal controls, and errors or irregularities may not be prevented or detected timely.



**Cause:** Due to limited time and resources, the County has not completed the process of documenting all significant policies and procedures and formalizing its risk assessment and monitoring process.

**Recommendation:** We recommend County management continue its efforts to document the significant internal controls in its significant accounting functions. The County should correct its investment policy to conform with accounting standards. We further recommend that a formal plan be developed to assess and monitor the significant internal controls on a regular basis, no less than annually. The monitoring should be documented to show the results of the review, changes required, and who performed the work.

**View of Responsible Official:** Concur

#### ITEMS ARISING THIS YEAR

Finding Number 2015-001

#### Prior Period Adjustments

**Criteria:** A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards identify one indication of a material weakness in internal control is the restatement of previously issued financial statements to reflect the correction of a material misstatement due to error.

**Condition:** Prior period adjustments material to the governmental activities were identified during the audit.

- A receivable for the remaining available balance of bridge bonding, shown on the Minnesota Department of Transportation's state-aid status report, was recognized in 2014 in error. The revenue for bridge bonding, an expenditure-driven grant, should be shown in the period the expenditure occurs.
- In 2014, the County completed several road projects. These projects were properly added to infrastructure, but were not removed from construction in progress. In addition, the County Board approved an increase in the capitalization threshold from \$5,000 to \$25,000 in October 2014 that was not reflected in the 2014 financial statements. The net effect was that capital assets and accumulated depreciation were overstated by \$3,578,642 and \$1,066,959, respectively.

**Context:** The need for prior period adjustments can raise doubts as to the reliability of the County's information being presented.

**Effect:** The January 1, 2015, net position of the governmental activities decreased by \$799,376 because of the error in reporting bridge bonding prior to the project expenditures and by an additional \$2,511,683 to reflect the net changes related to capital assets.

**Cause:** Bridge bonding is included on the state-aid status report and was incorrectly assumed to be an allotment when it is actually an expenditure-driven grant. The errors related to capital assets were due to an inadequate review of information for financial reporting.

**Recommendation:** We recommend County staff implement procedures over financial reporting that include review of balances, disclosures, and supporting documentation by a qualified individual to ensure the information is complete and accurate so the County's financial statements are fairly presented in accordance with generally accepted accounting principles (GAAP).

**View of Responsible Official:** Concur

Finding Number 2015-002

#### Audit Adjustments

**Criteria:** A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** Material audit adjustments were identified that resulted in significant changes to the County's financial statements. The County provided its originally prepared 2015 financial report as the County's official record, along with its general ledger and other supporting schedules used in the preparation of that report.

**Context:** The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. The adjustments were found in the audit; however, independent external auditors cannot be considered part of the County's internal control.

**Effect:** An adjustment of \$1,061,232 was made in the Road and Bridge Special Revenue Fund to reduce deferred inflows of resources and increase revenues and restricted fund balance to properly record County state-aid highway allotments for 2015. Adjustments were made to properly reflect the 2015 changes in capital assets, depreciation, and year-end balances reported in the notes to the financial statements and the governmental activities.

These adjustments resulted in a net decrease in machinery and equipment of \$668,283; a net increase in construction in progress of \$381,933; a net increase in accumulated depreciation for buildings and improvements of \$90,236; and a net decrease in accumulated depreciation for machinery and autos of \$172,490.

**Cause:** State-aid highway allotments received by the County in 2015 were reflected as though they were expenditure-driven grants rather than allotments and reported as deferred inflows rather than correctly reporting the allotments as revenue and restricted fund balance. The changes in capital assets resulted from the County doing a physical inventory and removing several items they no longer owned at December 31, 2015; a recalculation of depreciation based on estimated life; and the effect of construction in progress being removed in the year following the year the project was shown as an addition to infrastructure for several projects. The County does not have procedures in place for adequate review of information for financial reporting.

**Recommendation:** We recommend County staff implement procedures over financial reporting that include review of balances, disclosures, and supporting documentation by a qualified individual to ensure the information is complete and accurate so the County's financial statements are fairly presented in accordance with GAAP.

**View of Responsible Official:** Concur

Finding Number 2015-003

#### Fund Balance Reporting

**Criteria:** Governments are required to report amounts in the appropriate fund balance classifications, in accordance with Governmental Accounting Standards Board Statement 54 (GASB 54), by applying their accounting policies to determine whether restricted, committed, assigned, or unassigned resources have been spent. Resources identified to be used for specific purposes pursuant to constraints imposed by formal action of the County Board should be reported as committed fund balance.

**Condition:** The County reported committed fund balances for seven categories in the General Fund, and three categories in the Social Services Special Revenue Fund, for which County Board resolutions could not be located. Funds were also committed for operations, which does not meet the requirement of committed fund balance in accordance with GASB 54. In addition, the Social Services Special Revenue Fund received a child protection allocation in 2015 to supplement the child protection services. This allocation was restricted to providing new child protection services. Kittson County did not add the additional services until 2016, so the unspent allocation should have been reported as restricted fund balance for child protection. In the Ditch Special Revenue Fund, the negative portion of fund balance should be reported as unassigned instead of restricted.

**Context:** The fund balance commitments reported in the General Fund include commitments for buildings, capital purchases, data processing, enhanced 911 road signs, geographic information system, insurance, and the local emergency planning commission totaling \$2,040,572. The fund balance commitments in the Social Services Special Revenue fund include commitments for buildings, capital purchases, and data processing totaling \$330,000. The amount of unspent child protection allocation that should have been restricted in the Social Services Special Revenue Fund was \$82,199. The unassigned portion of the fund balance in the Ditch Special Revenue Fund was (\$18,814).

**Effect:** Significant reclassifications of fund balance were required in the General Fund and the Social Services Special Revenue Fund to adjust restricted, committed, assigned, and unassigned fund balance to remove the commitments not formally authorized by the County Board and to add a restriction for child protection, and to properly reflect the ditch balances.

**Cause:** The County Administrator informed us that several of the categories were carried over from designations of fund balance in pre-GASB 54 financial statements. The restriction for child protection was an oversight.

**Recommendation:** We recommend the County develop procedures to ensure all fund balance classifications comply with GASB 54 requirements.

**View of Responsible Official:** Concur

Finding Number 2015-004

#### Financial Statement Disclosures

**Criteria:** Reporting in accordance with GAAP requires certain elements to be included in the financial report.

**Condition:** The following presentations and disclosures in the originally prepared 2015 financial report provided by the County for this audit were either not reported or were not reported correctly:

- The Health Insurance Special Revenue Fund did not meet the requirements of a special revenue fund. It should be reported as an agency fund.
- The Mar-Kit Landfill Investment Trust Fund did not meet the requirements of an investment trust fund since there is no formal agreement to provide interest. It should be included with the Mar-Kit Landfill Agency Fund.
- The net position reported as net investment in capital assets did not reconcile to capital assets, net of accumulated depreciation, and debt related to those capital assets. A \$750,000 difference was corrected.

- The note on credit risk for investments did not include the rating by a nationally recognized statistical rating organization for the municipal bonds and had an incorrect rating for a Federal Home Loan Mortgage Corporation (FHLMC) investment. The note on custodial credit risk did not adequately disclose that the County was exposed to \$1,935,806 of custodial credit risk at year-end.
- Kittson County acts as a fiscal host for Mar-Kit Landfill, a separate entity. The pension data used for reporting purposes included employees of the Mar-Kit Landfill. Adjustments were needed to remove the Mar-Kit Landfill employees from the General Employees Retirement Fund (GERF) data to arrive at the correct amounts to show for Kittson County. The financial statements and disclosures only reflected the employer match contributions and did not include the employer additional contributions under the GERF plan. In addition, the allocation of functional expenses was not based on the contributions made in each functional area. These changes resulted in a decrease in the net pension liability of \$333,050; a decrease in deferred inflows of resources of \$37,864; a decrease in deferred outflows of resources of \$22,173; a decrease in various expense functions of \$4,337; an increase in grant revenue of \$3,780; and an increase in net position of \$340,624. These changes also required adjustments to the notes related to the pension activity.
- The changes in long-term liabilities shown in the notes was not mathematically correct. The total did not include the \$2,894,732 net pension liability.
- Intergovernmental revenue was not properly reported in the schedule of intergovernmental revenue. Reimbursements for services were overstated by \$72,187; state grants from the Minnesota Department of Human Services were understated by \$153,838; and federal grants from the Department of Health and Human Services were overstated by \$66,235.
- There was no note disclosure on the Forfeited Tax Special Revenue Fund deficit fund balance or the deficit fund balance for four of the individual ditch systems in the Ditch Special Revenue Fund.
- The deletions for accumulated depreciation exceeded the deletions for machinery and equipment in the capital assets note with no explanation.
- The Forfeited Tax Fund is being reported as a separate special revenue fund when it does not meet the criteria in GASB 54 to be reported as such.

**Context:** The financial report provided by the County for this audit was originally prepared/audited by another auditor.

**Effect:** The indicated presentations and disclosures in the previously issued financial report for the year ended December 31, 2015, are not in compliance with GAAP.

**Cause:** The County did not have an adequate review process in place to review the financial report before it was issued.

**Recommendation:** We recommend the County develop and document a process to review the financial report before the report is issued. Documentation of the review should be maintained on file.

**View of Responsible Official:** Concur

Finding Number 2015-005

Journal Entry Approval

**Criteria:** Management is responsible for establishing and maintaining internal controls and for the accuracy and completeness of all financial records and related information, including, but not limited to, the controls over initiating, authorizing, recording, and processing journal entries in the general ledger system.

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

**Context:** Support is submitted for journal entries.

**Effect:** There is an increased risk errors or irregularities will not be detected in a timely manner.

**Cause:** The County has no requirement or formal process to document review and approval of journal entries.

**Recommendation:** We recommend internal controls be implemented to ensure that all journal entries are reviewed and approved by someone other than the person making the journal entry before being posted to the general ledger. The review and approval should be documented by a signature and date.

**View of Responsible Official:** Acknowledged

Finding Number 2015-006

Segregation of Duties - Vendor Setup

**Criteria:** Internal controls should be designed to provide for an adequate segregation of duties so that no one individual has the ability to both process disbursements and set up new vendors. If segregation of duties is limited due to staff size, procedures should be implemented to include someone independent of the vendor payment process to review, verify, and approve new vendors on a timely basis.

**Condition:** Seven of the nine County staff with access to the Integrated Financial System had the ability to set up new vendors. Three of these seven positions also had the ability to process disbursements.

**Context:** The County has the ability to implement controls and/or limit access to the vendor setup function.

**Effect:** Inadequate segregation of duties increases the risk that errors or irregularities will not be detected in a timely manner.

**Cause:** The County indicated this was an oversight.

**Recommendation:** We recommend the County re-evaluate whether segregation of duties between disbursements and vendor setup is possible and assign access rights as applicable. If this segregation is not feasible, we recommend that procedures be developed to have an employee independent of the vendor payment process review new vendors and changes to existing vendors in a timely manner.

**View of Responsible Official:** Acknowledged

## II. OTHER FINDINGS AND RECOMMENDATIONS

### A. MINNESOTA LEGAL COMPLIANCE

#### ITEMS ARISING THIS YEAR

Finding Number 2015-007

#### Withholding Affidavit for Contractors (Form IC-134)

**Criteria:** Minnesota Statute § 270C.66 states that, before making final settlement with any contractor under a contract requiring the employment of employees for wages by the contractor and by subcontractors, the County is required to obtain a certificate by the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minn. Stat. § 290.92.

**Condition:** Final payment was made on a contract before Form IC-134, which certifies withholding compliance, was received from the contractor and approved by the Minnesota Department of Revenue.

**Context:** The County awarded four highway contracts in 2015 that were subject to the requirements of Minn. Stat. § 270C.66. Two of those contracts were tested for compliance with withholding requirements.

**Effect:** Noncompliance with Minn. Stat. § 270C.66.

**Cause:** The County informed us that it was an oversight that the Form IC-134 was not obtained.

**Recommendation:** We recommend the County obtain the required IC-134 Withholding Affidavit Form before final payment is made to contractors and subcontractors on all contracts requiring the employment of employees for wages.

**View of Responsible Official:** Concur

Finding Number 2015-008

Cashbook Not Retained

**Criteria:** Kittson County uses the General Records Retention Schedule for Counties, a copy of which can be found on the Minnesota Historical Society State Archive’s website. This record retention schedule discusses government records and references Minn. Stat. § 15.17, subd. 2, which clarifies government records to include “written or printed books, papers, letters, contracts, documents, maps, plans, computer-based data, and other records made or received pursuant to law or in connection with the transaction of public business.” Minnesota Statute § 15.17, subd. 1, states, “all government records shall be made on a physical medium of a quality to insure permanent records.” Minnesota Statute § 15.17, subd. 1, further provides that, “every public officer is empowered to reproduce records if the records are not deemed to be of a permanent or archival value by the commissioner of administration and the records disposition panel under section 138.17.”

**Condition:** At the time of the audit, the Treasurer’s cashbook, which should be the County’s record of the value of cash and investments by bank, as of December 31, 2015, was not available.

**Context:** According to the General Records Retention Schedule for Counties, the Treasurer’s general journal cashbook must be retained permanently.

**Effect:** Noncompliance with Minn. Stat. §§ 15.17 and 138.17.

**Cause:** The cashbook is kept electronically, but once the books are closed for the year, the report cannot be accessed.

**Recommendation:** We recommend Kittson County print the cashbook reports to PDF files, paper, or other medium, and retain the reports in compliance with Minn. Stat. §§ 15.17 and 138.17.



**View of Responsible Official:** Concur

Finding Number 2015-009

Collateral Assignments

**Criteria:** Collateral assignments are required by Minn. Stat. § 118A.03, subd. 4, to be in writing and provide, upon default, that a depository shall release collateral pledged to the government entity on demand.

**Condition:** Kittson County has deposits with United Valley Bank and American Federal Bank. To secure these deposits, both banks have pledged collateral to Kittson County. However, the pledge agreements do not contain the language required by Minn. Stat. § 118A.03, subd. 4, that, “upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged.”

**Context:** Current collateral assignments are advisable to ensure that proper statutory language is included in the collateral assignments so that the County’s interests are properly protected.

**Effect:** The current depository pledge agreements with United Valley Bank and American Federal Bank do not conform with the requirements of Minn. Stat. § 118A.03, subd. 4.

**Cause:** The County and the banks were not aware of the requirements of Minn. Stat. § 118A.03, subd. 4.

**Recommendation:** We recommend the County Administrator obtain new collateral assignments from United Valley Bank and American Federal Bank. The new assignments should be reviewed to make sure they include the statutory language required by Minn. Stat. § 118A.03, subd. 4.

**View of Responsible Official:** Concur

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

Finding Number 2015-010

Ditch Fund Balance Deficits

**Criteria:** Assets should exceed liabilities in order for the County to meet its obligations and maintain a positive fund balance. Under Minn. Stat. § 103E.655, drainage project costs must be paid from the appropriate drainage system account. Through the levying of assessments, Minn. Stat. § 103E.735, subd. 1, permits the accumulation of a surplus balance for the repair costs of a ditch system not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is greater.

**Condition:** As of December 31, 2015, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balance amounts.

**Context:** Four of the 36 individual ditch systems had deficit fund balances at December 31, 2015. The deficit fund balances ranged from \$2,226 to \$7,190 and totaled \$18,814.

**Effect:** Ditch systems with deficit fund balances indicate measures have not been taken to ensure that the ditch can meet financial obligations.

**Cause:** Ditch expenditures were necessary, and the ditch levies were not sufficient to cover all costs.

**Recommendation:** The County should levy assessments in sufficient amounts to maintain current expenditures and to cover expenditures already made in advance from other funds.

**View of Responsible Official:** Concur

**REPRESENTATION OF KITTSOON COUNTY  
HALLOCK, MINNESOTA**

**CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**Finding Number: 1996-001**

**Finding Title: Segregation of Duties**

Name of Contact Person Responsible for Corrective Action:

Eric Christensen, County Administrator

Corrective Action Planned:

Kittson County, through its County Board, County Administrator and Department Heads, continues to look for opportunities to segregate duties to ensure adequate internal controls can be maintained. Due to the limited number of people employed by Kittson County, it is not possible to segregate duties sufficiently as to eliminate all internal control risk. The County Administrator, through external sources and vendors, continues to make every effort to educate Department Heads on the value of maintaining internal controls and encourages the cross-training of existing employees as an interim solution. Kittson County is well aware of the risk that limited staffing might cause but due to the financial costs must find solutions that mitigate risk without breaking the County's budget.

Anticipated Completion Date:

None. Though we will strive to remedy this issue at every opportunity, at this time we expect this issue to continue indefinitely.

**Finding Number: 2007-001**

**Finding Title: Documenting and Monitoring Internal Controls**

Name of Contact Person Responsible for Corrective Action:

Eric Christensen, County Administrator

Corrective Action Planned:

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

Anticipated Completion Date:

None. Though we will strive to remedy this issue at every opportunity, at this time we expect this issue to continue indefinitely.

**Finding Number: 2015-001**

**Finding Title: Prior Period Adjustments**

Name of Contact Person Responsible for Corrective Action:

Eric Christensen, County Administrator

Corrective Action Planned:

Due to limited staff and the quantity of financial information maintained by the County, we have and will continue to rely upon the expertise and training of our independent auditors to help ensure the accuracy of our financial reports. However the County will create a process so that unaudited financial information will receive greater scrutiny prior to being given to outside auditors and audited financial statements will be reviewed more closely before being approved for release.

Anticipated Completion Date:

We expect completion to occur in conjunction with the release of our audited financial reports for Fiscal 2016 (est. May 2018).

**Finding Number: 2015-002**

**Finding Title: Audit Adjustments**

Name of Contact Person Responsible for Corrective Action:

Eric Christensen, County Administrator

Corrective Action Planned:

Due to limited staff and the quantity of financial information maintained by the County, we have and will continue to rely upon the expertise and training of our independent auditors to help ensure the accuracy of our financial reports. However, the County will create a process so that its unaudited financial information will receive greater scrutiny prior to being given to outside auditors and audited financial statements will be reviewed more closely before being approved for release.

Anticipated Completion Date:

We expect completion to occur in conjunction with the release of our audited financial reports for Fiscal 2016 (est. May 2018).

**Finding Number: 2015-003**

**Finding Title: Fund Balance Reporting**

Name of Contact Person Responsible for Corrective Action:

Eric Christensen, County Administrator

Corrective Action Planned:

The County is requiring its Board of Commissioners to establish by resolution any fund balances it wished to commit. In addition, the County will take additional efforts to review fund balance classifications to ensure that their designations conform to GASB 54 requirements.

Anticipated Completion Date:

We expect completion to occur in conjunction with the release of our audited financial reports for Fiscal 2016 (est. May 2018).

**Finding Number: 2015-004**

**Finding Title: Financial Statement Disclosures**

Name of Contact Person Responsible for Corrective Action:

Eric Christensen, County Administrator

Corrective Action Planned:

Due to limited staff and the quantity of financial information maintained by the County, we have and will continue to rely upon the expertise and training of our independent auditors to help ensure the accuracy of our financial reports. However, the County will create a process so that its audited financial statements will be reviewed more closely before being approved for release.

Anticipated Completion Date:

We expect completion to occur in conjunction with the release of our audited financial reports for Fiscal 2016 (est. May 2018).

**Finding Number: 2015-005**

**Finding Title: Journal Entry Approval**

Name of Contact Person Responsible for Corrective Action:

Eric Christensen, County Administrator

Corrective Action Planned:

All journal entries will be recorded, reviewed and approved to ensure proper control on such entries is maintained

Anticipated Completion Date:

May 2018

**Finding Number: 2015-006**

**Finding Title: Segregation of Duties - Vendor Setup**

Name of Contact Person Responsible for Corrective Action:

Eric Christensen, County Administrator

Corrective Action Planned:

Vendor setup will be restricted to one individual who will not have permission to process a disbursement. The Finance Officer will be responsible for setting up vendors for other county users and the County Administrator will be responsible for setting up vendors for the Finance Officer.

Anticipated Completion Date:

May 2018

**Finding Number: 2015-007**

**Finding Title: Withholding Affidavit for Contractors (Form IC-134)**

Name of Contact Person Responsible for Corrective Action:

Eric Christensen, County Administrator

Corrective Action Planned:

Incident was a one-time event which occurred while the position of Highway Accountant was vacant. Highway staff have been informed once again of the requirement to have form IC-134 in our possession before submitting any contract for payment. The Finance Officer has been reminded not to process any contract payments without the IC-134.

Anticipated Completion Date:

May 2018

**Finding Number: 2015-008**

**Finding Title: Cashbook Not Retained**

Name of Contact Person Responsible for Corrective Action:

Eric Christensen, County Administrator

Corrective Action Planned:

County staff was not aware that past years data was not retained by the Treasurer's cashbook software program until the 2015 data was requested by the Office of the State Auditor. County staff is currently printing a hard copy of each year's data for record retention purposes prior to closing a fiscal year in the system.

Anticipated Completion Date:

Immediately. Fiscal year 2017's data has been printed out and fiscal year 2018's data is being printed on a monthly basis and retained per state retention requirements. By the time this was discovered, it was too late to retain fiscal year 2016's data.

**Finding Number: 2015-009**  
**Finding Title: Collateral Assignments**

Name of Contact Person Responsible for Corrective Action:

Eric Christensen, County Administrator

Corrective Action Planned:

The County's 2 financial institutions have been made aware of the additional language required by state statute and future pledge agreements (May 2018 and onward) will have the language included.

Anticipated Completion Date:

May 2018

**Finding Number: 2015-010**  
**Finding Title: Ditch Fund Balance Deficits**

Name of Contact Person Responsible for Corrective Action:

Eric Christensen, County Administrator

Corrective Action Planned:

County Commissioners will be instructed to levy sufficient funds to create a fund balance sufficient to cover any anticipated repairs.

Anticipated Completion Date:

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



**REPRESENTATION OF KITTSON COUNTY  
HALLOCK, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**Finding Number: 1996-001**

**Finding Title: Segregation of Duties**

**Summary of Condition:** 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.

**Summary of Corrective Action Previously Reported:** The County Board and the Department Administrators will continue to monitor the operations within their offices and will consider additional procedures to ensure internal control.

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

Was corrective action taken significantly different than the action previously reported?  
Yes \_\_\_\_\_ No   X  

**Finding Number: 2007-001**

**Finding Title: Internal Controls**

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

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

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

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No   X