

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

ROCK COUNTY
LUVERNE, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2008

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 160 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 730 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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**ROCK COUNTY
LIVERNE, MINNESOTA**

For the Year Ended December 31, 2008



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

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**ROCK COUNTY
LIVERNE, MINNESOTA**

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**ROCK COUNTY
LUVERNE, MINNESOTA**

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**ROCK COUNTY
LIVERNE, MINNESOTA**

ORGANIZATION SCHEDULE
2008

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1st District	Kenneth Hoime**	January 2009
2nd District	Richard Bakken	January 2011
3rd District	Ronald Boyenga*	January 2009
4th District	Robert Jarchow	January 2011
5th District	Jane Wildung Lanphere	January 2009
Officers		
Elected		
Attorney	Donald R. Klosterbuer	January 2011
Auditor/Treasurer	Gloria Rolfs	January 2011
Sheriff	Evan Verbrugge	January 2011
Appointed		
Administrator	Kyle J. Oldre	Indefinite
Family Services Director	Randy Ehlers	Indefinite
Highway Engineer	Mark Sehr	Indefinite
Land Records Director	Thomas Houselog	Indefinite

*Chair 2008

**Chair 2009

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Rock County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Rock County Rural Water District, which represents the amounts shown as the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed here, insofar as it relates to amounts included for the Rock County Rural Water District component unit, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County as of December 31, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary comparison schedules listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of Rock County. The statement and schedules listed as supplementary information in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of Rock County. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2009, on our consideration of Rock County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

October 7, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**ROCK COUNTY
LUVERNE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008
(Unaudited)**

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the County's financial activities for the fiscal year ended December 31, 2008. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$46,257,013, of which \$37,750,825 is invested in capital assets, net of related debt, and \$1,799,599 is restricted to specific purposes. The \$6,706,589 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net assets increased by \$928,072 for the year ended December 31, 2008. A large part of the increase is attributable to an increase in capital assets of \$1,525,742, which was offset by a decrease in cash and investments of \$450,690.
- The net cost of governmental activities for the current fiscal year was \$3,913,792. General revenues and other items totaling \$4,841,864 funded the net cost.
- At the close of 2008, Rock County's combined ending governmental fund balances totaled \$6,917,297, a decrease of \$1,056,843 from 2007. Of this balance, \$847,877 was unreserved and undesignated by Rock County and thus available for spending at the government's discretion.
- For the year ended December 31, 2008, the unreserved balance of the General Fund was \$2,994,182, or 62.6 percent, of the total General Fund expenditures for that year. This represents a decrease from 2007, which had 82.5 percent of the total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other required supplementary information.

Government-Wide Financial Statements

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

The statement of net assets presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. It is important to consider other nonfinancial factors, such as changes in the County's property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

The statement of activities presents the County's governmental activities. Most of the 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. The County has no business-type activities for which the County is legally accountable. The County has one component unit for which it is legally accountable.

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

Fund Financial Statements

Fund level financial statements provide detailed information about the significant funds, not the County as a whole. Some funds are required to be established by state law or by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using modified accrual accounting. Such information may be useful in evaluating a government's near-term financial 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 County's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County adopts an annual appropriated budget for its General Fund, Public Works Special Revenue Fund, Family Services Special Revenue Fund, Land Management Special Revenue Fund, and Debt Service Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibits 3 through 6 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside of the County. Fiduciary funds are not reflected in the government-wide statements because the resources of these funds are not available to support the County's own programs or activities. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Fiduciary activities are reported in the Statement of Fiduciary Net Assets (Exhibit 7).

The County reports the Rock County Rural Water District as a discretely presented component unit. The Rock County Rural Water District has separately issued financial statements.

Notes to the Financial Statements

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 on pages 28 through 63 of this report.

Other Information

In addition to the basic financial statements and notes, other information is provided as supplementary information regarding Rock County's intergovernmental revenues.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Rock County's assets exceeded liabilities by \$46,257,013 at the close of 2008. The largest portion of Rock County's net assets (81.6 percent) reflects the County's investment in capital assets (land, buildings, equipment, and infrastructure, such as roads and bridges), less any related outstanding debt used to acquire those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Net Assets

	Governmental Activities	
	2008	2007
Assets		
Current and other assets	\$ 10,222,656	\$ 10,256,609
Capital assets	39,590,988	38,065,246
Total Assets	\$ 49,813,644	\$ 48,321,855
Liabilities		
Long-term liabilities	\$ 2,357,465	\$ 2,537,827
Current liabilities	1,199,166	455,087
Total Liabilities	\$ 3,556,631	\$ 2,992,914
Net Assets		
Invested in capital assets, net of related debt	\$ 37,750,825	\$ 36,040,130
Restricted	1,799,599	1,897,112
Unrestricted	6,706,589	7,391,699
Total Net Assets	\$ 46,257,013	\$ 45,328,941

Unrestricted net assets, the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements, are 14.5 percent of the net assets.

Governmental Activities

The County's governmental activities increased net assets by 2.0 percent (\$46,257,013 for 2008 compared to \$45,328,941 for 2007). Key elements in this increase in net assets are as follows:

Changes in Net Assets

	Governmental Activities	
	2008	2007
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 1,942,014	\$ 1,959,822
Operating grants and contributions	4,906,549	4,714,265
Capital grants and contributions	3,459,528	985,060
General revenues		
Property taxes	3,238,300	3,073,733
Unrestricted state aid	1,178,098	1,345,391
Investment earnings	229,835	319,886
Other	195,631	266,731
Total Revenues	\$ 15,149,955	\$ 12,664,888

	Governmental Activities	
	2008	2007
Expenses		
General government	\$ 2,238,331	\$ 2,076,269
Public safety	1,876,377	1,810,586
Highways and streets	5,779,228	2,860,760
Sanitation	551,216	482,105
Human services	2,688,120	2,621,211
Health	158,471	131,132
Culture and recreation	531,441	236,898
Conservation of natural resources	317,572	296,014
Economic development	1,900	1,900
Interest	79,227	85,444
Total Expenses	<u>\$ 14,221,883</u>	<u>\$ 10,602,319</u>
Change in Net Assets	\$ 928,072	\$ 2,062,569
Net Assets - January 1, Restated	<u>45,328,941</u>	<u>43,266,372</u>
Net Assets - December 31	<u><u>\$ 46,257,013</u></u>	<u><u>\$ 45,328,941</u></u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$6,917,297, a decrease of \$1,056,843 in comparison with the prior year. Of the combined ending fund balances, \$6,113,084 represents unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law, grant agreements, or bond covenants.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unreserved fund balance of \$2,994,182. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund unreserved fund balance represents 62.6 percent of total General Fund expenditures. During 2008, the fund balance decreased by \$456,205. The primary reason for this increase was due to a transfer of a \$300,000 investment to the Capital Projects Fund and a \$250,000 contribution to the renovation of the Heritage Center Museum.

The Public Works Special Revenue Fund had an unreserved fund balance of \$931,249 at fiscal year-end, representing 18.0 percent of its annual expenditures. The ending fund balance decreased \$619,850 during 2008.

The Family Services Special Revenue Fund had an unreserved fund balance of \$1,023,462 at fiscal year-end, representing 38.2 percent of its annual expenditures. The ending fund balance decreased \$281,710 during 2008, primarily due to greater than anticipated expenses.

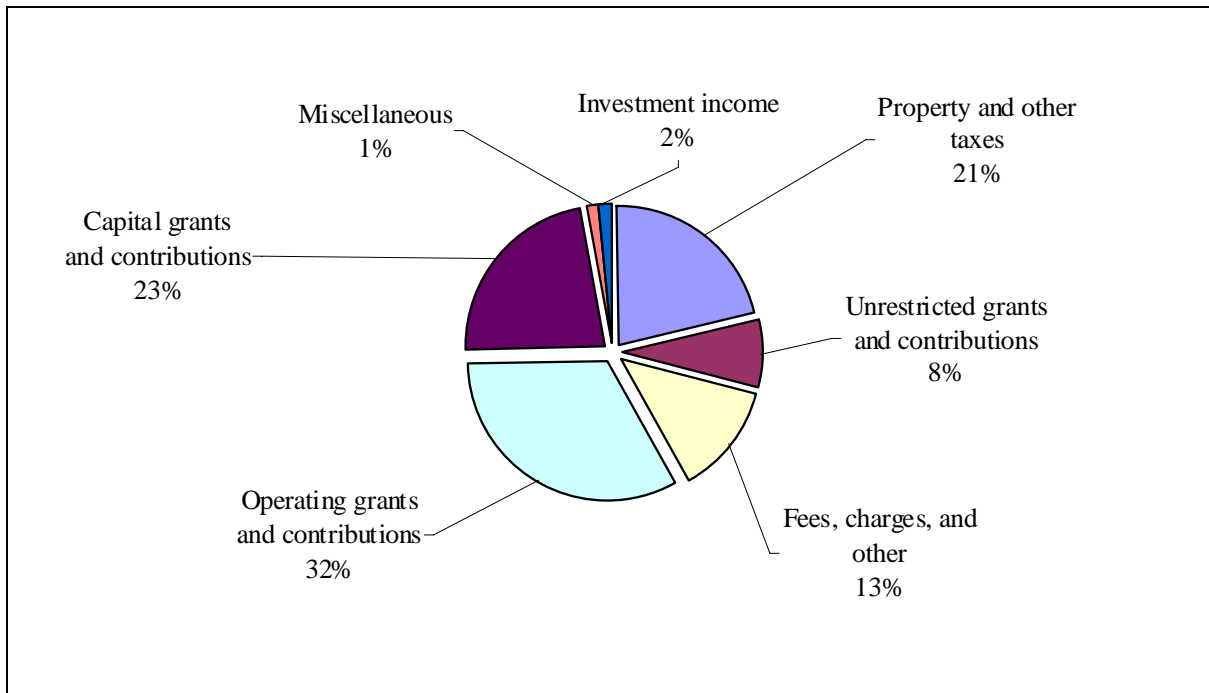
The Land Management Special Revenue Fund had an unreserved fund balance of \$790,383 at fiscal year-end. The ending fund balance increased \$51,927 during 2008.

The Ditch Special Revenue Fund had a deficit unreserved fund balance of \$39,109 at fiscal year-end. The ending fund balance decreased \$17,830 during 2008, primarily due to the ditches needing more maintenance.

Governmental Activities

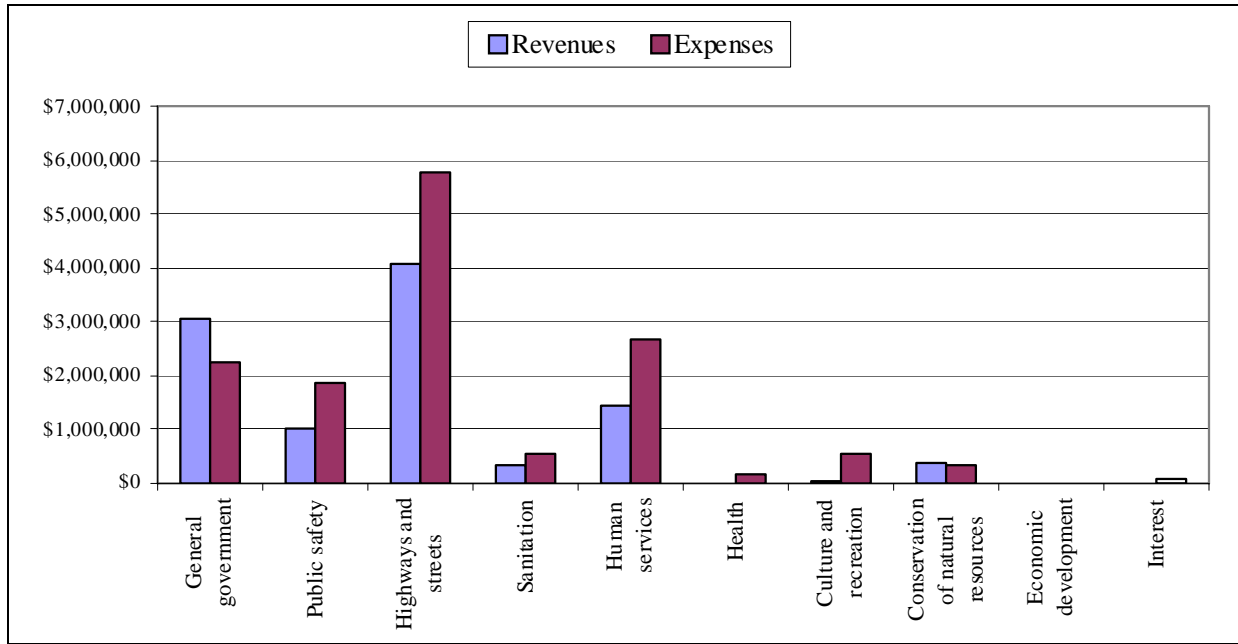
The County’s total revenues were \$15,149,955. The following table presents the percent of total County revenues by source for the year ended December 31, 2008.

Total County Revenues



The next chart presents the cost and revenue of each program as well as the County’s program revenues. Total revenues for the County were \$15,149,955, while total expenses were \$14,221,883. This reflects a \$928,072 decrease in net assets for the year ended December 31, 2008.

Program Revenues and Expenses - 2008



The cost of all governmental activities this year was \$14,221,883. However, as shown on the Statement of Activities on Exhibit 2, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$3,238,300 because some of the costs were paid by those who directly benefited from the programs (\$1,942,014) or by other governments and organizations that subsidized certain programs with grants and contributions (\$8,366,077). The County paid for the remaining “public benefit” portion of governmental activities with \$4,841,864 in general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs and interest.

The following table presents the cost of each of the County’s four largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activity). The net cost shows the financial burden placed on the County’s taxpayers by each of these functions.

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Highways and streets	\$ 5,779,228	\$ 2,860,760	\$ 1,718,883	\$ (248,964)
Human services	2,688,120	2,621,211	1,237,045	1,009,450
General government	2,238,331	2,076,269	(798,691)	785,984
Public safety	1,876,377	1,810,586	847,870	880,093
All others	1,639,827	1,233,493	908,685	516,609
Totals	\$ 14,221,883	\$ 10,602,319	\$ 3,913,792	\$ 2,943,172

General Fund Budgetary Highlights

No differences between the original General Fund expenditure budget and final amended budget were experienced in 2008.

Actual General Fund revenues exceeded final budgeted revenues by \$338,209, primarily due to a greater than expected return on investments and greater than expected grants and other intergovernmental aid. Actual expenditures were more than budgeted expenditures by \$470,656, primarily due to a \$250,000 contribution to the renovation of the Heritage Center Museum and significant variances in general government and public safety expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2008, totaled \$39,590,988 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$1,525,742, or 4.0 percent, from the previous year. The major capital asset events were:

\$ 2,528,346	Construction in Progress - Heritage Center Museum
\$ 175,852	Purchase of Machinery and Equipment

	Capital Assets at Year-End Net of Depreciation	
	2008	2007
Land	\$ 1,199,945	\$ 1,199,945
Construction in progress	2,767,317	262,777
Works of art and historical treasures	600,000	600,000
Infrastructure	28,426,524	29,204,442
Buildings	3,638,938	3,734,617
Land improvements	195,545	203,924
Machinery, equipment, and vehicles	2,762,719	2,859,541
Total	<u>\$ 39,590,988</u>	<u>\$ 38,065,246</u>

Additional information about the County's capital assets can be found in Note 3.A. to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had total net outstanding debt of \$2,357,465, which was backed by the full faith and credit of the government.

	Outstanding Debt	
	<u>2008</u>	<u>2007</u>
General obligation bonds	\$ 1,614,223	\$ 1,737,692
Capital leases	200,163	260,116
Compensated absences payable	<u>543,079</u>	<u>540,019</u>
Total	<u>\$ 2,357,465</u>	<u>\$ 2,537,827</u>

The County's debt related to general obligation bonds decreased by \$123,469 (7.1 percent) during the fiscal year due to repayment of principal.

Minnesota statutes limit the amount of debt a county may levy to three percent of its total market value. At the end of 2008, the County's outstanding debt was 0.20 percent of its total estimated market value of \$1,197,600,500.

Additional information on the County's long-term debt can be found in Note 3.C. to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- The unemployment rate for Rock County at the end of 2008 was 4.9 percent. This compares favorably with the state unemployment rate of 6.6 percent. The 2008 population is estimated at 9,459, a decrease of 262 from the 2000 census of 9,721.
- On December 23, 2008, the Rock County Board of Commissioners approved the 2009 budget and adopted a property tax levy of \$3,801,061, which represents a 4.0 percent increase over the 2008 property tax levy of \$3,654,847.

Rock County Tax Rate and Levy History

2009	32.755%	\$ 3,801,061
2008	35.717	3,654,847
2007	36.798	3,481,138
2006	39.301	3,349,095
2005	42.689	3,261,258

- Rock County is very dependent on state-paid aids, credits, and grants. Should there be any unallotments or changes in the state aid calculation, it would have a significant impact on next year's budget.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Rock County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County Administrator, Kyle J. Oldre, or County Auditor/Treasurer, Gloria F. Rolfs, Rock County Courthouse, 204 East Brown Street, P. O. Box 509, Luverne, Minnesota 56156-0509.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

	Primary Government Governmental Activities	Rock County Rural Water District Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 4,452,729	\$ 135,780
Investments	2,788,500	974,862
Investments - restricted	-	1,363,798
Receivables - net	2,823,307	30,129
Receivables - restricted	-	527,491
Inventories	128,463	87,068
Prepaid items	11,433	4,240
Deferred debt issuance costs	18,224	-
Capital assets		
Non-depreciable capital assets	4,567,262	733,909
Depreciable capital assets - net of accumulated depreciation	35,023,726	3,777,384
Total Assets	\$ 49,813,644	\$ 7,634,661
<u>Liabilities</u>		
Accounts payable and other current liabilities	\$ 510,062	\$ 80,978
Accrued interest payable	29,533	7,856
Customer deposits	59,183	-
Unearned revenue	600,388	-
Long-term liabilities		
Due within one year	160,060	100,000
Due in more than one year	2,197,405	1,312,000
Total Liabilities	\$ 3,556,631	\$ 1,500,834
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 37,750,825	\$ 3,091,437
Restricted for		
Public safety	80,299	-
Highways and streets	1,631,274	-
Other purposes	88,026	-
Unrestricted	6,706,589	3,042,390
Total Net Assets	\$ 46,257,013	\$ 6,133,827

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

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**ROCK COUNTY
LIVERNE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 2,238,331	\$ 398,528
Public safety	1,876,377	826,535
Highways and streets	5,779,228	50,810
Sanitation	551,216	262,302
Human services	2,688,120	174,901
Health	158,471	-
Culture and recreation	531,441	10,240
Conservation of natural resources	317,572	218,698
Economic development	1,900	-
Interest	79,227	-
	\$ 14,221,883	\$ 1,942,014
Total Governmental Activities		
Component Unit		
Rock County Rural Water District	\$ 687,374	\$ 628,411

General Revenues

Property taxes
Gravel taxes
Other taxes
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Interest income
Miscellaneous

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Rock County Rural Water District Component Unit
\$ 110,148	\$ 2,528,346	\$ 798,691	
201,972	-	(847,870)	
3,078,353	931,182	(1,718,883)	
55,000	-	(233,914)	
1,276,174	-	(1,237,045)	
-	-	(158,471)	
13,650	-	(507,551)	
171,252	-	72,378	
-	-	(1,900)	
-	-	(79,227)	
\$ 4,906,549	\$ 3,459,528	\$ (3,913,792)	
\$ -	\$ 195,691		\$ 136,728
		\$ 3,238,300	\$ -
		43,362	-
		12,932	-
		36,977	-
		1,178,098	-
		229,835	44,168
		102,360	-
		\$ 4,841,864	\$ 44,168
		\$ 928,072	\$ 180,896
		45,328,941	5,952,931
		\$ 46,257,013	\$ 6,133,827

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**ROCK COUNTY
LUVERNE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

	<u>General</u>	<u>Public Works</u>	<u>Family Services</u>
<u>Assets</u>			
Cash and pooled investments	\$ 1,639,452	\$ 649,367	\$ 989,232
Petty cash and change funds	1,275	75	-
Investments	1,680,500	860,000	-
Taxes receivable			
Prior	14,684	4,353	5,668
Special assessments receivable			
Prior	-	-	-
Accounts receivable	27,493	46,119	47,442
Accrued interest receivable	18,733	9,730	-
Loans receivable	2,000	-	-
Due from other funds	-	-	4,100
Due from other governments	20,548	2,214,862	181,295
Inventories	-	128,463	-
Prepaid items	2,410	1,845	7,178
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 3,407,095</u>	<u>\$ 3,914,814</u>	<u>\$ 1,234,915</u>

EXHIBIT 3

<u>Land Management</u>	<u>Ditch</u>	<u>Veterans Memorial</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
\$ 987,418	\$ 14,301	\$ 30,036	\$ 79,899	\$ 61,674	\$ 4,451,379
-	-	-	-	-	1,350
8,000	-	40,000	-	200,000	2,788,500
148	-	-	744	-	25,597
7,876	-	-	-	-	7,876
-	-	-	-	-	121,054
62	-	242	-	1,308	30,075
220,000	-	-	-	-	222,000
-	-	-	-	-	4,100
-	-	-	-	-	2,416,705
-	-	-	-	-	128,463
-	-	-	-	-	11,433
<u>\$ 1,223,504</u>	<u>\$ 14,301</u>	<u>\$ 70,278</u>	<u>\$ 80,643</u>	<u>\$ 262,982</u>	<u>\$ 10,208,532</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

	<u>General</u>	<u>Public Works</u>	<u>Family Services</u>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 84,384	\$ 49,202	\$ 74,287
Salaries payable	52,972	22,207	15,569
Contracts payable	-	32,768	-
Due to other funds	4,100	-	-
Due to other governments	59,326	387	108,751
Deferred revenue - unavailable	32,154	2,070,670	5,668
Deferred revenue - unearned	7,242	404,031	-
Customer deposits	-	-	-
Total Liabilities	<u>\$ 240,178</u>	<u>\$ 2,579,265</u>	<u>\$ 204,275</u>
Fund Balances			
Reserved for			
Inventories	\$ -	\$ 128,463	\$ -
Loans receivable	2,000	-	-
Prepaid items	2,410	1,845	7,178
Missing heirs	3,549	-	-
Law library	2,111	-	-
Recorder's technology fund	44,543	-	-
Recorder's compliance fund	37,823	-	-
Enhanced 911	51,579	-	-
Sheriff's contingency	2,324	-	-
Sheriff's forfeited property	26,396	-	-
Highway allotments	-	273,992	-
Unreserved			
Designated for cash flows	1,807,643	766,710	894,286
Designated for compensated absences	231,715	164,539	129,176
Designated for capital improvements	800,000	-	-
Designated for Heartland building	-	-	-
Undesignated	154,824	-	-
Total Fund Balances	<u>\$ 3,166,917</u>	<u>\$ 1,335,549</u>	<u>\$ 1,030,640</u>
Total Liabilities and Fund Balances	<u>\$ 3,407,095</u>	<u>\$ 3,914,814</u>	<u>\$ 1,234,915</u>

EXHIBIT 3
(Continued)

<u>Land Management</u>	<u>Ditch</u>	<u>Veterans Memorial</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
\$ 4,548	\$ 2,227	\$ -	\$ -	\$ -	\$ 214,648
3,434	-	-	-	-	94,182
-	-	-	-	-	32,768
-	-	-	-	-	4,100
-	-	-	-	-	168,464
8,024	-	242	744	-	2,117,502
189,115	-	-	-	-	600,388
8,000	51,183	-	-	-	59,183
<u>\$ 213,121</u>	<u>\$ 53,410</u>	<u>\$ 242</u>	<u>\$ 744</u>	<u>\$ -</u>	<u>\$ 3,291,235</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 128,463
220,000	-	-	-	-	222,000
-	-	-	-	-	11,433
-	-	-	-	-	3,549
-	-	-	-	-	2,111
-	-	-	-	-	44,543
-	-	-	-	-	37,823
-	-	-	-	-	51,579
-	-	-	-	-	2,324
-	-	-	-	-	26,396
-	-	-	-	-	273,992
190,507	-	-	-	-	3,659,146
17,649	-	-	-	-	543,079
-	-	-	-	-	800,000
-	-	-	-	262,982	262,982
582,227	(39,109)	70,036	79,899	-	847,877
<u>\$ 1,010,383</u>	<u>\$ (39,109)</u>	<u>\$ 70,036</u>	<u>\$ 79,899</u>	<u>\$ 262,982</u>	<u>\$ 6,917,297</u>
<u>\$ 1,223,504</u>	<u>\$ 14,301</u>	<u>\$ 70,278</u>	<u>\$ 80,643</u>	<u>\$ 262,982</u>	<u>\$ 10,208,532</u>

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**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2008**

Fund balance - total governmental funds (Exhibit 3)	\$	6,917,297
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		39,590,988
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,117,502
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (1,640,000)	
Unamortized bond discount	25,777	
Deferred debt issuance costs	18,224	
Capital leases payable	(200,163)	
Compensated absences	(543,079)	
Accrued interest payable	(29,533)	
		(2,368,774)
Net Assets of Governmental Activities (Exhibit 1)	\$	<u>46,257,013</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	General	Public Works	Family Services
Revenues			
Taxes	\$ 1,881,403	\$ 595,869	\$ 694,298
Special assessments	-	-	-
Licenses and permits	1,630	-	-
Intergovernmental	1,256,882	3,629,210	1,531,240
Charges for services	1,114,381	288,708	126,965
Fines and forfeits	32,005	-	-
Gifts and contributions	-	-	-
Investment earnings	191,832	44,270	-
Miscellaneous	149,733	19,226	47,936
	\$ 4,627,866	\$ 4,577,283	\$ 2,400,439
Total Revenues			
Expenditures			
Current			
General government	\$ 2,068,423	\$ -	\$ -
Public safety	1,768,917	-	-
Highways and streets	-	4,650,337	-
Sanitation	-	291,839	-
Human services	-	-	2,682,149
Health	16,800	-	-
Culture and recreation	531,179	-	-
Conservation of natural resources	137,357	-	-
Economic development	1,900	-	-
Intergovernmental	209,205	198,786	-
Debt service			
Principal	35,064	24,889	-
Interest	10,468	1,163	-
Administrative (fiscal) charges	-	-	-
	\$ 4,779,313	\$ 5,167,014	\$ 2,682,149
Total Expenditures			
Excess of Revenues Over (Under)			
Expenditures	\$ (151,447)	\$ (589,731)	\$ (281,710)

EXHIBIT 5

Land Management	Ditch	Veterans Memorial	Debt Service	Capital Projects	Total
\$ 18,544	\$ -	\$ -	\$ 97,482	\$ -	\$ 3,287,596
207,184	-	-	-	-	207,184
31,139	-	-	-	-	32,769
233,110	-	-	35,342	-	6,685,784
1,344	-	-	-	-	1,531,398
-	-	-	-	-	32,005
-	-	86,564	-	-	86,564
574	-	3,106	-	-	239,782
20,014	-	-	-	1,309	238,218
\$ 511,909	\$ -	\$ 89,670	\$ 132,824	\$ 1,309	\$ 12,341,300
\$ 46,909	\$ -	\$ 19,634	\$ -	\$ 52,535	\$ 2,187,501
-	-	-	-	-	1,768,917
-	-	-	-	-	4,650,337
227,543	-	-	-	-	519,382
-	-	-	-	-	2,682,149
-	-	-	-	-	16,800
-	-	-	-	-	531,179
159,479	17,830	-	-	-	314,666
-	-	-	-	-	1,900
-	-	-	-	-	407,991
-	-	-	125,000	-	184,953
-	-	-	67,664	-	79,295
-	-	-	403	-	403
\$ 433,931	\$ 17,830	\$ 19,634	\$ 193,067	\$ 52,535	\$ 13,345,473
\$ 77,978	\$ (17,830)	\$ 70,036	\$ (60,243)	\$ (51,226)	\$ (1,004,173)

**ROCK COUNTY
LUVERNE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>General</u>	<u>Public Works</u>	<u>Family Services</u>
Other Financing Sources (Uses)			
Transfers in	\$ -	\$ 26,051	\$ -
Transfers out	(308,258)	-	-
Proceeds from the sale of assets	3,500	-	-
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	\$ (304,758)	\$ 26,051	\$ -
	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance	\$ (456,205)	\$ (563,680)	\$ (281,710)
	<hr/>	<hr/>	<hr/>
Fund Balance - January 1	3,623,122	1,955,399	1,312,350
Increase (decrease) in reserved for inventories	-	(56,170)	-
	<hr/>	<hr/>	<hr/>
Fund Balance - December 31	\$ 3,166,917	\$ 1,335,549	\$ 1,030,640
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

EXHIBIT 5
(Continued)

Land Management	Ditch	Veterans Memorial	Debt Service	Capital Projects	Total
\$ -	\$ -	\$ -	\$ -	\$ 308,258	\$ 334,309
(26,051)	-	-	-	-	(334,309)
-	-	-	-	-	3,500
<u>\$ (26,051)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 308,258</u>	<u>\$ 3,500</u>
\$ 51,927	\$ (17,830)	\$ 70,036	\$ (60,243)	\$ 257,032	\$ (1,000,673)
958,456	(21,279)	-	140,142	5,950	7,974,140
-	-	-	-	-	(56,170)
<u>\$ 1,010,383</u>	<u>\$ (39,109)</u>	<u>\$ 70,036</u>	<u>\$ 79,899</u>	<u>\$ 262,982</u>	<u>\$ 6,917,297</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (1,000,673)

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.

Deferred revenue - December 31	\$ 2,117,502	
Deferred revenue - January 1	(1,840,693)	276,809

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. Contributions of capital assets are reported in the Statement of Activities, but not in the funds. In the Statement of Activities, the net book value of assets disposed of is expensed, while not reported in the funds.

Expenditures for general capital assets and infrastructure	\$ 175,852	
Capital contribution	2,504,540	
Net book value of assets disposed of	(3,463)	
Current year depreciation	(1,151,187)	1,525,742

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal repayments		
General obligation bonds	\$ 125,000	
Capital leases payment	59,953	184,953

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	\$ (3,060)	
Change in accrued interest payable	3,085	
Discount and bond issuance costs amortization	(2,614)	
Change in inventories	(56,170)	(58,759)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 928,072

FIDUCIARY FUNDS

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**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2008**

<u>Assets</u>	
Cash and pooled investments	<u><u>\$ 346,739</u></u>
 <u>Liabilities</u>	
Accounts payable	\$ 286,775
Due to other governments	<u>59,964</u>
Total Liabilities	<u><u>\$ 346,739</u></u>

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**ROCK COUNTY
LIVERNE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Rock County was established May 23, 1884, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Rock County (primary government) and its component unit for which the County is financially accountable. The County is financially accountable if it appoints a voting majority of an organization's governing body and has the ability to impose its will on that governing body, or if the organization could potentially provide specific financial benefits or impose specific financial burdens on the County. 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, appointed by the County Board, serves as the clerk of the Board but does not vote in its decisions.

Component Unit

While part of the reporting entity, discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. The Rock County Rural Water District is included in the County's reporting entity because of the significance of its operational and financial relationship with the County. The Rock County Rural Water District was established in 1978 to provide water to rural residents of Rock County. Financial statements of the Rock County Rural Water District can be obtained at 541 - 150th Avenue, Luverne, Minnesota 56156.

**ROCK COUNTY
LUVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County also participates in joint ventures described in Note 6.B. and jointly-governed organizations described in Note 6.C.

B. Basic Financial Statements

1. Government-Wide Statements

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those 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.

**ROCK COUNTY
LUVERNE, MINNESOTA**

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 the governmental fund financial statements is on major individual governmental funds with each displayed as a separate column in the fund financial statements. The County reports all of its governmental funds as major funds.

The County reports the following major governmental funds:

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

The Public Works Special Revenue Fund is used to account for the maintenance and construction of streets and highways and to account for the County's garbage transfer station.

The Family Services Special Revenue Fund is used to account for all funds to be used for welfare services.

The Land Management Special Revenue Fund is used to account for the maintenance of the County sanitation and water quality services.

The Ditch Special Revenue Fund is used to account for the maintenance, repair, and construction of the County ditch system.

The Veterans Memorial Special Revenue Fund is used to account for overseeing the use, operation, maintenance, upkeep, repair, improvement, or modification of the County's Veterans Memorial.

The Debt Service Fund is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Capital Projects Fund is used to account for financial resources to be used for construction and remodeling of capital facilities.

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.

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Rock County considers all revenues as available if collected within 60 days after the end of the current period. 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 general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

Rock County and its component unit have defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's or component unit's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2008, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2008 were \$188,807 for the County.

3. Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the noncurrent maturities of interfund loans).

All receivables are shown net of an allowance for uncollectibles calculated on a case-by-case basis. Portions of the loans receivable are not expected to be repaid within one year.

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.

**ROCK COUNTY
LUVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories in the Public Works Special Revenue Fund are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

5. Restricted Assets

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the governmental activities column on the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 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 market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

**ROCK COUNTY
LUVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15 - 60
Improvements other than buildings	5 - 25
Public domain infrastructure	20 - 80
Machinery and equipment	3 - 50

7. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. The government-wide statement of net assets reports both current and noncurrent portions of compensated absences using full accrual accounting. The current portion consists of an amount based on a trend analysis of current usage of vacation and vested sick leave. The noncurrent portion consists of the remaining amount of vacation and total vested sick leave.

8. Deferred Revenue

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column on the statement of net assets. Bond premiums and discounts, as well as issuance costs, 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 reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Deficit Net Assets

The Ditch Special Revenue Fund had a deficit fund balance at December 31, 2008, of \$39,109. The County anticipates levying special assessments in the future to eliminate the deficit.

B. Excess of Expenditures Over Budget

Expenditures exceeded budgets in the following funds:

Fund	Expenditures	Budget	Excess
General Fund	\$ 4,779,313	\$ 4,308,657	\$ 470,656
Special Revenue Funds			
Public Works	5,167,014	2,072,322	3,094,692
Family Services	2,682,149	2,592,804	89,345
Land Management	433,931	404,978	28,953
Debt Service Fund	193,067	135,561	57,506

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental activities	
Cash and pooled investments	\$ 4,452,729
Investments	2,788,500
Fiduciary net assets	
Cash and pooled investments	<u>346,739</u>
Total Cash and Investments	<u>\$ 7,587,968</u>
Petty cash and change funds	\$ 1,350
Checking	4,651,096
Money market savings	116,106
Certificates of deposit	2,788,500
Social Welfare Fund checking account	<u>30,916</u>
Total Deposits and Investments	<u>\$ 7,587,968</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all County deposits be protected by 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.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable 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 County's deposits may not be returned to it. The County's policy is to minimize deposit custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.

As of December 31, 2008, the County's deposits in banks were entirely covered by federal depository insurance or by collateral in accordance with Minnesota statutes.

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and 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.

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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 and component unit minimize their exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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 and component unit's policy to invest only in securities that meet the ratings requirements set by state statute.

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 outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31 2008, the County's investments were not exposed to custodial credit risk.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's and the Rural Water District's policy that U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities, may be held without limit.

2. Receivables

Receivables as of December 31, 2008, for the County's governmental activities, net of the applicable allowances for uncollectible accounts, are as follows:

	<u>Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes	\$ 25,597	\$ -
Special assessments	7,876	-
Accounts	121,054	-
Loans receivable	222,000	116,000
Interest	30,075	-
Due from other governments	2,416,705	-
Total Governmental Activities	\$ 2,823,307	\$ 116,000

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Loans Receivable

Loans receivable activity consisted of cash loans to private enterprises and several repayments. Loans receivable activity is as follows:

	Loans Receivable
Buffalo Ridge Rail Authority	\$ 236,070
Day Activity Center of Luverne	20,000
Luverne Optimist Hockey Club	3,000
Loans Receivable, January 1, 2008	\$ 259,070
New loans issued during the year - Rock County Opportunities, Inc.	220,000
Debt written off during the year	(236,070)
Payments received during the year	(21,000)
Loans Receivable	\$ 222,000

Loans receivable in the General Fund is made up of \$2,000 from the Luverne Optimist Hockey Club. The Land Management Special Revenue Fund has \$220,000 loan receivable from Rock County Opportunities, Inc., from a loan made in 2008.

4. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 214,024	\$ -	\$ -	\$ 214,024
Right-of-way	985,921	-	-	985,921
Construction in progress	262,777	2,528,346	23,806	2,767,317
Works of art and historical treasures	600,000	-	-	600,000
Total capital assets not depreciated	\$ 2,062,722	\$ 2,528,346	\$ 23,806	\$ 4,567,262
Capital assets depreciated				
Buildings	\$ 5,559,982	\$ -	\$ -	\$ 5,559,982
Land improvements	209,511	-	-	209,511
Machinery, furniture, and equipment	5,389,967	175,852	166,527	5,399,292
Infrastructure	38,895,773	-	-	38,895,773
Total capital assets depreciated	\$ 50,055,233	\$ 175,852	\$ 166,527	\$ 50,064,558

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

4. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 1,825,365	\$ 95,679	\$ -	\$ 1,921,044
Land improvements	5,587	8,379	-	13,966
Machinery, furniture, and equipment	2,530,426	269,211	163,064	2,636,573
Infrastructure	9,691,331	777,918	-	10,469,249
	<u>\$ 14,052,709</u>	<u>\$ 1,151,187</u>	<u>\$ 163,064</u>	<u>\$ 15,040,832</u>
Total accumulated depreciation				
	<u>\$ 36,002,524</u>	<u>\$ (975,335)</u>	<u>\$ 3,463</u>	<u>\$ 35,023,726</u>
Total capital assets depreciated, net				
Capital Assets, Net	<u>\$ 38,065,246</u>	<u>\$ 1,553,011</u>	<u>\$ 27,269</u>	<u>\$ 39,590,988</u>

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

Governmental Activities	
General government	\$ 134,090
Public safety	50,776
Sanitation	31,834
Highways and streets (including infrastructure)	931,886
Human services	2,339
Conservation of natural resources	262
	<u>262</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,151,187</u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2008, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
Family Services	General Fund	<u>\$ 4,100</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

The outstanding balance between funds results from the time lag between the dates the interfund goods and services are provided and reimbursable expenditures occurred and when transactions are recorded in the accounting system and when the funds are repaid. The balance is expected to be liquidated in the subsequent year.

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2008, consisted of the following:

Transfers to Public Works Special Revenue Fund from Land Management Special Revenue Fund	\$ 26,051	Provide funding
Transfer to Capital Projects Fund from General Fund	308,258	Provide funding
Total Interfund Transfers	\$ 334,309	

C. Liabilities

1. Payables

Payables at December 31, 2008, were as follows:

	Primary Government
Accounts	\$ 214,648
Salaries	94,182
Contracts	32,768
Due to other governments	168,464
Total Payables	\$ 510,062

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Leases

Capital Leases

Rock County has a lease agreement that qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. It consists of the following at December 31, 2008:

<u>Capital Lease</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2008</u>
HVAC system	2013	\$45,382	4.45	<u>\$ 361,168</u>	<u>\$ 200,163</u>

The gross amounts of assets included in the statement of net assets recorded under capital lease are \$652,268, and the related accumulated depreciation included in the general government accumulated depreciation is \$152,197.

Payments on the HVAC system capital lease are made from the General Fund. The future lease obligations and the net present value of these minimum lease payments as of December 31, 2008, were as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2009	\$ 45,532
2010	45,532
2011	45,532
2012	45,532
2013	<u>45,532</u>
Total minimum lease payments	\$ 227,660
Less: amount representing interest	<u>(27,497)</u>
Present Value of Future Minimum Lease Payments	<u>\$ 200,163</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2008
General obligation notes 2005 G.O. Capital Improvement Bonds	2026	\$45,000 - \$125,000	2.90 - 4.30	\$ 1,750,000	\$ 1,640,000
Less: discounts				-	(25,777)
Total General Obligation Bonds, Net				<u>\$ 1,750,000</u>	<u>\$ 1,614,223</u>

4. Debt Service Requirements

Debt service requirements at December 31, 2008, were as follows:

Year Ending December 31	General Obligation Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2009	\$ 65,000	\$ 63,098	\$ 36,625	\$ 8,907
2010	70,000	60,917	38,254	7,278
2011	70,000	58,573	39,957	5,575
2012	75,000	56,087	41,735	3,797
2013	75,000	53,463	43,592	1,940
2014 - 2018	420,000	221,542	-	-
2019 - 2023	505,000	130,104	-	-
2024 - 2026	360,000	23,564	-	-
Total	<u>\$ 1,640,000</u>	<u>\$ 667,348</u>	<u>\$ 200,163</u>	<u>\$ 27,497</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds payable	\$ 1,765,000	\$ -	\$ 125,000	\$ 1,640,000	\$ 65,000
Less: deferred amounts for issuance discounts	(27,308)	-	(1,531)	(25,777)	-
Total bonds payable	\$ 1,737,692	\$ -	\$ 123,469	\$ 1,614,223	\$ 65,000
Capital leases	260,116	-	59,953	200,163	36,625
Compensated absences	540,019	3,060	-	543,079	58,435
Governmental Activities Long-Term Liabilities	<u>\$ 2,537,827</u>	<u>\$ 3,060</u>	<u>\$ 183,422</u>	<u>\$ 2,357,465</u>	<u>\$ 160,060</u>

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund.

**ROCK COUNTY
LUVERNE, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using 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 the 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 Retirement Fund members whose annuity is calculated using Method 1, and all Public Employees Police and Fire Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**ROCK COUNTY
LUVERNE, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. Rock County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were required to contribute 8.6 percent of their annual covered salary in 2008. That rate increased to 9.4 percent in 2009.

The County is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

	2008	2009
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75
Public Employees Police and Fire Fund	12.90	14.10

Rock County's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	2008	2007	2006
Public Employees Retirement Fund	\$ 219,163	\$ 203,272	\$ 184,404
Public Employees Police and Fire Fund	92,707	75,856	66,695

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans (Continued)

B. Defined Contribution Plan

Two elected officials of Rock County are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA in accordance with Minn. Stat. ch. 353D. 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. Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5.0 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by Rock County during the year ended December 31, 2008, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 1,913	\$ 1,913
Percentage of covered payroll	5.00%	5.00%

Required contribution rates were 5.00 percent.

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, for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property

**ROCK COUNTY
LIVERNE, MINNESOTA**

5. Risk Management (Continued)

and Casualty Divisions. The County purchases commercial insurance for employee health and dental coverage as well as for other risks. 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 \$410,000 per claim in 2008 and \$430,000 per claim in 2009. 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.

The Southwest/West Central Service Cooperative (Service Cooperative) is a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses; however, a particular member may receive increases or decreases depending on a good or bad year of claims experience. Premiums are determined annually by the Service Cooperative and are based partially on the experience of the County and partially on the experience of the group. The Service Cooperative solicits proposals from carriers and negotiates the contracts.

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

Lincoln-Pipestone Rural Water System

At December 31, 2008, Lincoln-Pipestone Rural Water System had \$19,423,000 of general obligation bonds outstanding through 2033. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

The debt is paid by the Lincoln-Pipestone Rural Water System from special assessments levied against property specially benefited by the applicable expansion, extension, or enlargement of the system and from the net revenues from time to time received in excess of the current costs of operating and maintaining the system. The bonds are general obligations of the issuing counties for which their full faith, credit, and unlimited taxing powers are pledged. The participating counties (Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine) have adopted board resolutions and have signed joint powers agreements to define their liability for a proportional share of the debt should the issuing counties make any debt service payments. In such a situation, each of the other counties will promptly reimburse the paying counties in proportion to the percentage of Lincoln-Pipestone Rural Water System customers located in such county, in accordance with Minn. Stat. § 116A.24, subd. 3. The outstanding bonds are reported as liabilities in the annual financial statements of the Lincoln-Pipestone Rural Water System and are not reported as liabilities in the financial statements of any of the ten participating counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

In 2009, Nobles County issued two series of general obligation bonds totaling \$19,415,000 on behalf of the Lincoln-Pipestone Rural Water System to finance the water expansion and internal improvements necessary for the delivery of water to its customers. Each of the participating counties adopted board resolutions to approve updated joint powers agreements to guarantee the payment of the bonds.

**ROCK COUNTY
LIVERNE, MINNESOTA**

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

B. Joint Ventures

The County has an ongoing financial interest or responsibility in the following joint ventures:

Lincoln-Pipestone Rural Water System

Rock County, along with Lincoln, Lyon, Murray, Nobles, Pipestone, and Yellow Medicine Counties, jointly established the Lincoln-Pipestone Rural Water System pursuant to Minn. Stat. ch. 116A. The system is responsible for storing, treating, and distributing water for domestic, commercial, and industrial use within the area it serves. The cost of providing these services is recovered through user charges. The Lincoln-Pipestone Rural Water System is governed by the District Court. The Water System's Board is solely responsible for the budgeting and financing of the Water System.

Bonds were issued by Lincoln County and Yellow Medicine County to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2008, are \$19,516,143.

The Lincoln-Pipestone Rural Water System's 2008 financial report shows total net assets of \$38,060,524, including unrestricted net assets of \$17,709,824. The decrease in net assets for the year ended December 31, 2008, was \$18,549.

Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at East Highway 14, P. O. Box 188, Lake Benton, Minnesota 56149-0188.

Nobles-Rock Community Health Services

Rock County entered into a joint powers agreement with Nobles County creating and operating the Nobles-Rock Community Health Services pursuant to Minn. Stat. § 471.59. The governing board is composed of two County Commissioners from the participating counties and three lay members.

**ROCK COUNTY
LUVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Nobles-Rock Community Health Services (Continued)

The Nobles-Rock Community Health Services is headquartered in Worthington, Minnesota, with offices at the county seats of the member counties. Financing is provided by state grants, appropriations from member counties, and charges for services. The County's contribution for December 31, 2008, was \$139,332.

Financial data of the Health Services for the year ended December 31, 2007 (the latest information available), are:

Total Assets	\$	392,293
Total Liabilities		156,298
Total Net Assets		235,995
Total Revenues		1,433,583
Total Expenses		1,559,924
Increase (Decrease) in Net Assets		(126,341)

The Health Services' long-term debt consists of compensated absences of \$88,431.

Complete financial statements of the Nobles-Rock Community Health Services can be obtained at the Nobles County Courthouse, P. O. Box 757, Worthington, Minnesota 56187.

Rock-Nobles Community Corrections

Rock County participates with Nobles County in a joint venture to provide community corrections services. Rock-Nobles Community Corrections develops and implements humane and effective methods of prevention, control, and rehabilitation of offenders. The governing board is composed of two County Commissioners from the participating counties and three lay members.

Rock-Nobles Community Corrections is headquartered in Worthington, Minnesota, with offices at the county seats of the member counties. Financing is provided by state grants and appropriations from member counties. Rock County's contributions to Rock-Nobles Community Corrections for the year ended December 31, 2008, totaled \$69,873.

**ROCK COUNTY
LUVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Rock-Nobles Community Corrections (Continued)

The following is a summary of Rock-Nobles Community Corrections' annual financial report for the year ended December 31, 2007 (the latest information available):

Total Assets	\$	308,269
Total Liabilities		85,604
Total Fund Equity		222,665
Total Revenues		753,507
Total Expenditures/Expenses		613,940
Increase (Decrease) in Fund Equity		139,567

Rock-Nobles Community Corrections' long-term debt consists of employees' compensated absences payable of \$63,924 as of December 31, 2007.

Complete financial statements of Rock-Nobles Community Corrections can be obtained at the Nobles County Courthouse, P. O. Box 547, Worthington, Minnesota 56187.

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the County entered into a joint powers agreement with Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Pipestone, Redwood, Renville, Rock, and Swift Counties; and Lincoln, Lyon, and Murray Counties represented by the Lincoln, Lyon, and Murray Human Services Board, creating and operating the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host. The Board shall take actions and enter into such agreements as may be necessary to plan and develop within the Board's geographic jurisdiction, a system of care that will serve the needs of adults with serious and persistent mental illness. The governing board is composed of one board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

**ROCK COUNTY
LUVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The following is a summary of the Board's annual financial report (the latest available) for the year ended December 31, 2007:

Total Assets	\$	1,683,591
Total Liabilities		323,335
Total Equity		1,360,256
Total Revenues		3,359,694
Total Expenditures		2,947,615
Net Increase to Equity		412,079

The Board reported no long-term obligations at December 31, 2007.

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained at the Cottonwood County Family Services Agency, Windom, Minnesota 56101.

Southwest Minnesota Regional Radio Board

The Southwest Minnesota Regional Radio Board Joint Powers Board was established April 22, 2008, between Rock County, the City of Marshall, the City of Worthington, and twelve other counties under authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

Control is vested in a Joint Powers Board consisting of one County Commissioner or one City Council member for each party to the agreement. The members representing counties and cities are appointed by their respective governing bodies for the membership of that governing body. In addition, voting members of the board include a member of the Southwest Minnesota Regional Advisory Committee, a member of the Southwest Minnesota Regional Radio System User Committee, and a member of the Southwest Minnesota Owners and Operators Committee.

During 2008, Rock County contributed \$500 to the Joint Powers Board.

**ROCK COUNTY
LUVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Retired and Senior Volunteer Program of Southwest Minnesota

Rock County, in conjunction with five counties and the Southwest Regional Development Commission, pursuant to Minn. Stat. § 471.59 have formed an agreement to coordinate the delivery of volunteer services to non-profit community service entities and local units of government meeting the guidelines for receiving volunteer services under the authority of the counties. The Board is comprised of one voting member from each participating County and one voting member of the SW-RSVP Advisory Council. In 2008, the County's contribution to the SW-RSVP of Southwest Minnesota was \$3,402.

C. Jointly-Governed Organizations

Kanaranzi-Little Rock Watershed District

The County Board is responsible for appointing two members of the Board of Managers for the Kanaranzi-Little Rock Watershed District, but the County's responsibility does not extend beyond making the appointments.

Rock-Pipestone Family Service Collaborative

Rock County, in conjunction with other local governmental entities and various private organizations, has formed the Rock-Pipestone Family Service Collaborative. The Collaborative was established to provide leadership and facilitation to families, youth, and providers. The goal of the Collaborative is to improve and redesign the local service delivery system in a way which improves the quality of lives, supports choices, and promotes self-reliance. Rock County is the fiscal agent of the Collaborative. Rock County has no operational or financial control over the Collaborative. Separate financial information can be obtained from the Rock-Pipestone Family Service Collaborative.

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

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

Reporting Entity

The Rock County Rural Water District is included in the County's reporting entity because of the significance of its operational and financial relationship with the County. The Rock County Rural Water District was established in 1978 to provide water to rural residents of Rock County. It is governed by a board composed of seven members appointed by the Rock County Board of Commissioners. It is reported in a separate column in the financial statements to emphasize that it is legally separate from the County. Financial statements of the Rock County Rural Water District can be obtained at 541 - 150th Avenue, Luverne, Minnesota 56156.

Basis of Presentation

The Rock County Rural Water District presents as an enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Deposits and Investments

The cash balances are invested by the District for the purpose of increasing earnings through investment activities. Investments are reported at fair value at December 31, 2008, based on market prices. Pooled investment earnings for 2008 were \$44,168.

The District invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the District's position in the pool is the same as the value of the pool shares.

**ROCK COUNTY
LUVERNE, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Deposits and Investments (Continued)

Rock County is holding a short-term investment of the District. These certificates of deposit are for future expenditures on the distribution system and any other related expenditures. The total held by the County for the District was \$1,363,798 at December 31.

B. Detailed Notes on All Funds

1. Assets

Deposits and Investments

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

Cash and pooled investments	\$ 135,780
Investments	974,862
Investments - restricted	<u>1,363,798</u>
Total Deposits and Investments	<u>\$ 2,474,440</u>
Petty cash and change funds	\$ 50
Deposits - held by the District	135,730
Deposits - held by the County	263,798
Certificates of deposit - held by the District	544,781
Certificates of deposit - held by the County	1,100,000
MAGIC Fund	<u>430,081</u>
Total Deposits and Investments	<u>\$ 2,474,440</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets

Deposits and Investments (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. As of December 31, 2008, \$676,755 of the Rural Water District's bank balance was exposed to custodial credit risk as follows:

Uninsured and uncollateralized with securities held by the pledging financial institution's trust department not in the Rural Water District's name	<u>\$ 676,755</u>
---	-------------------

Receivables

Receivables as of December 31, 2008, for the Rock County Rural Water District's governmental activities follow:

Component unit	
Taxes	\$ 806
Accounts	201
Interest	<u>29,122</u>
Total Governmental Activities	<u>\$ 30,129</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Assets (Continued)

Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land and right-of-way	\$ 106,587	\$ 11,648	\$ -	\$ 118,235
Lewis and Clark project	593,970	-	-	593,970
Expansion project	21,704	-	-	21,704
Total capital assets not depreciated	\$ 722,261	\$ 11,648	\$ -	\$ 733,909
Capital assets depreciated				
Buildings and pumps	\$ 2,784,256	\$ 59,077	\$ -	\$ 2,843,333
Machinery, furniture, and equipment	151,617	2,630	-	154,247
Infrastructure - distribution system	3,949,958	51,846	-	4,001,804
Total capital assets depreciated	\$ 6,885,831	\$ 113,553	\$ -	\$ 6,999,384
Less: accumulated depreciation for				
Buildings and pumps	\$ 1,230,473	\$ 75,750	\$ -	\$ 1,306,223
Machinery, furniture, and equipment	137,117	5,843	-	142,960
Infrastructure - distribution system	1,670,929	101,888	-	1,772,817
Total accumulated depreciation	\$ 3,038,519	\$ 183,481	\$ -	\$ 3,222,000
Total capital assets depreciated, net	\$ 3,847,312	\$ (69,928)	\$ -	\$ 3,777,384
Capital Assets, Net	\$ 4,569,573	\$ (58,280)	\$ -	\$ 4,511,293

Depreciation expense of \$183,481 was charged to the Rural Water District function on the statement of activities for the year ended December 31, 2008.

**ROCK COUNTY
LUVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes on All Funds (Continued)

2. Liabilities

Payables

Payables at December 31, 2008, were as follows:

Accounts	\$	4,117
Salaries		76,055
Other		806
Total Payables		\$ 80,978

Long-Term Debt

In 2000, the Rock County Rural Water District obtained financing through Rock County with the Minnesota Public Facilities Authority in the form of a general obligation revenue bond debt of \$1,460,000 at 1.79 percent interest for 20 years and a grant of \$500,000.

Financing was obtained again during 2007 through Rock County with the Minnesota Public Facilities Authority in the form of a general obligation revenue note of \$533,000 at 1.02 percent interest.

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2008
General obligation bonds					
2000 G.O. Revenue Bonds	2019	\$14,000 - \$89,000	1.79	\$ 1,460,000	\$ 895,000
2007 G.O. Revenue Note	2026	\$16,000 - \$31,000	1.02	533,000	517,000
Total				\$ 1,993,000	\$ 1,412,000

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes on All Funds

2. Liabilities (Continued)

Debt Service Requirements

Debt service requirements at December 31, 2008, were as follows:

Year Ending December 31	General Obligation Revenue Bond		General Obligation Revenue Note	
	Principal	Interest	Principal	Interest
2009	\$ 74,000	\$ 16,021	\$ 26,000	\$ 5,273
2010	76,000	14,696	27,000	5,008
2011	77,000	13,336	27,000	4,733
2012	78,000	11,957	27,000	4,457
2013	80,000	10,561	27,000	4,182
2014 - 2018	421,000	30,841	142,000	16,667
2019 - 2023	89,000	1,593	148,000	9,303
2024 - 2026	-	-	93,000	1,897
Total	\$ 895,000	\$ 99,005	\$ 517,000	\$ 51,520

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. revenue bond	\$ 968,000	\$ -	\$ 73,000	\$ 895,000	\$ 74,000
G.O. revenue note	533,000	-	16,000	517,000	26,000
Long-Term Liabilities	\$ 1,501,000	\$ -	\$ 89,000	\$ 1,412,000	\$ 100,000

**ROCK COUNTY
LUVERNE, MINNESOTA**

7. Component Unit Disclosures (Continued)

C. Pension Plan

Full-time and certain part-time employees of the Rock County Rural Water District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA) as described in Note 4.

The Rock County Rural Water District's contributions to the Public Employees Retirement Fund for the years ended December 31, 2008, 2007, and 2006, were \$11,833, \$10,686, and \$9,863, respectively. These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

REQUIRED SUPPLEMENTARY INFORMATION

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**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,132,292	\$ 2,132,292	\$ 1,881,403	\$ (250,889)
Licenses and permits	615	615	1,630	1,015
Intergovernmental	771,241	771,241	1,256,882	485,641
Charges for services	1,100,504	1,100,504	1,114,381	13,877
Fines and forfeits	25,000	25,000	32,005	7,005
Investment earnings	125,000	125,000	191,832	66,832
Miscellaneous	135,005	135,005	149,733	14,728
Total Revenues	\$ 4,289,657	\$ 4,289,657	\$ 4,627,866	\$ 338,209
Expenditures				
Current				
General government				
Commissioners	\$ 200,722	\$ 190,722	\$ 178,401	\$ 12,321
Courts	6,500	6,500	55,504	(49,004)
Law library	-	-	9,276	(9,276)
County administration	161,694	161,694	147,744	13,950
Auditor/Treasurer	232,964	232,964	224,180	8,784
License center	94,710	94,710	92,462	2,248
Elections	36,063	36,063	30,125	5,938
Accounting and auditing	40,000	40,000	53,498	(13,498)
Data processing	172,159	172,159	130,013	42,146
Attorney	148,136	148,136	146,649	1,487
Land records	325,157	325,157	338,103	(12,946)
Buildings and plant	228,352	228,352	197,346	31,006
Veterans service officer	56,172	56,172	50,277	5,895
Transportation	309,200	309,200	397,607	(88,407)
Other general government	-	-	17,238	(17,238)
Total general government	\$ 2,011,829	\$ 2,001,829	\$ 2,068,423	\$ (66,594)
Public safety				
Sheriff	\$ 1,549,837	\$ 1,549,837	\$ 1,584,663	\$ (34,826)
Sheriff's contingency	-	-	8,898	(8,898)
Coroner	10,000	10,000	3,861	6,139
E-911 system	-	-	56,423	(56,423)
Prisoner care	139,000	139,000	114,815	24,185
Emergency services	1,443	1,443	257	1,186
Total public safety	\$ 1,700,280	\$ 1,700,280	\$ 1,768,917	\$ (68,637)

The notes to the required supplementary information are an integral part of this schedule.

**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Health				
Community health	\$ 16,800	\$ 16,800	\$ 16,800	\$ -
Culture and recreation				
Historical society	\$ -	\$ -	\$ 6,250	\$ (6,250)
Minnesota trails	-	-	13,650	(13,650)
Community pool and fitness center	83,801	83,801	82,560	1,241
Senior citizens	6,204	6,204	4,265	1,939
Regional library	130,450	130,450	130,208	242
Heritage museum	-	10,000	291,246	(281,246)
Other	25,250	25,250	3,000	22,250
Total culture and recreation	\$ 245,705	\$ 255,705	\$ 531,179	\$ (275,474)
Conservation of natural resources				
Extension	\$ 122,938	\$ 122,938	\$ 121,357	\$ 1,581
Agricultural society	-	-	16,000	(16,000)
Total conservation of natural resources	\$ 122,938	\$ 122,938	\$ 137,357	\$ (14,419)
Economic development				
Tourism	\$ 1,900	\$ 1,900	\$ 1,900	\$ -
Intergovernmental				
Public safety	\$ 69,873	\$ 69,873	\$ 69,873	\$ -
Health	\$ 139,332	\$ 139,332	\$ 139,332	\$ -
Debt service				
Principal	\$ -	\$ -	\$ 35,064	\$ (35,064)
Interest	\$ -	\$ -	\$ 10,468	\$ (10,468)
Total Expenditures	\$ 4,308,657	\$ 4,308,657	\$ 4,779,313	\$ (470,656)
Excess of Revenues Over (Under)				
Expenditures	\$ (19,000)	\$ (19,000)	\$ (151,447)	\$ (132,447)

**ROCK COUNTY
LUVERNE, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Proceeds from the sale of assets	\$ -	\$ -	\$ 3,500	\$ 3,500
Transfers out	-	-	(308,258)	(308,258)
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (304,758)</u>	<u>\$ (304,758)</u>
Net Change in Fund Balance	\$ (19,000)	\$ (19,000)	\$ (456,205)	\$ (437,205)
Fund Balance - January 1	<u>3,623,122</u>	<u>3,623,122</u>	<u>3,623,122</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 3,604,122</u></u>	<u><u>\$ 3,604,122</u></u>	<u><u>\$ 3,166,917</u></u>	<u><u>\$ (437,205)</u></u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
PUBLIC WORKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 656,734	\$ 656,734	\$ 595,869	\$ (60,865)
Intergovernmental	1,136,668	1,136,668	3,629,210	2,492,542
Charges for services	229,670	229,670	288,708	59,038
Investment earnings	32,000	32,000	44,270	12,270
Miscellaneous	17,250	17,250	19,226	1,976
Total Revenues	\$ 2,072,322	\$ 2,072,322	\$ 4,577,283	\$ 2,504,961
Expenditures				
Current				
Highways and streets				
Administration	\$ 219,211	\$ 219,211	\$ 186,656	\$ 32,555
Maintenance	905,323	905,323	947,477	(42,154)
Construction	198,768	198,768	2,940,335	(2,741,567)
Equipment and maintenance shops	419,158	419,158	465,179	(46,021)
Material and services for resale	14,000	14,000	21,300	(7,300)
Other	90,942	90,942	89,390	1,552
Total highways and streets	\$ 1,847,402	\$ 1,847,402	\$ 4,650,337	\$ (2,802,935)
Sanitation				
Solid waste	224,920	224,920	291,839	(66,919)
Intergovernmental				
Highways and streets	-	-	198,786	(198,786)
Debt Service				
Principal retirement	-	-	24,889	(24,889)
Interest	-	-	1,163	(1,163)
Total Expenditures	\$ 2,072,322	\$ 2,072,322	\$ 5,167,014	\$ (3,094,692)

**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 2
(Continued)

**BUDGETARY COMPARISON SCHEDULE
PUBLIC WORKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (589,731)	\$ 5,599,653
Other Financing Sources (Uses)				
Transfers in from governmental funds	-	-	26,051	26,051
Net Change in Fund Balance	\$ -	\$ -	\$ (563,680)	\$ (563,680)
Fund Balance - January 1	1,955,399	1,955,399	1,955,399	-
Increase (decrease) in reserved for inventories	-	-	(56,170)	(56,170)
Fund Balance - December 31	<u>\$ 1,955,399</u>	<u>\$ 1,955,399</u>	<u>\$ 1,335,549</u>	<u>\$ (619,850)</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 791,297	\$ 791,297	\$ 694,298	\$ (96,999)
Intergovernmental	1,558,265	1,558,265	1,531,240	(27,025)
Charges for services	135,641	135,641	126,965	(8,676)
Miscellaneous	57,601	57,601	47,936	(9,665)
Total Revenues	\$ 2,542,804	\$ 2,542,804	\$ 2,400,439	\$ (142,365)
Expenditures				
Current				
Human services				
Income maintenance	\$ 924,823	\$ 924,823	\$ 861,899	\$ 62,924
Social services	1,667,981	1,667,981	1,820,250	(152,269)
Total Expenditures	\$ 2,592,804	\$ 2,592,804	\$ 2,682,149	\$ (89,345)
Net Change in Fund Balance	\$ (50,000)	\$ (50,000)	\$ (281,710)	\$ (231,710)
Fund Balance - January 1	1,312,350	1,312,350	1,312,350	-
Fund Balance - December 31	\$ 1,262,350	\$ 1,262,350	\$ 1,030,640	\$ (231,710)

**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
LAND MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 21,278	\$ 21,278	\$ 18,544	\$ (2,734)
Special assessments	185,501	185,501	207,184	21,683
Licenses and permits	32,828	32,828	31,139	(1,689)
Intergovernmental	148,771	148,771	233,110	84,339
Charges for services	2,500	2,500	1,344	(1,156)
Investment earnings	-	-	574	574
Miscellaneous	58,500	58,500	20,014	(38,486)
Total Revenues	\$ 449,378	\$ 449,378	\$ 511,909	\$ 62,531
Expenditures				
Current				
General government				
Planning and zoning	\$ 36,749	\$ 36,749	\$ 46,909	\$ (10,160)
Sanitation				
Solid waste	\$ 119,420	\$ 119,420	\$ 122,205	\$ (2,785)
Recycling	74,837	74,837	78,986	(4,149)
Hazardous waste	27,930	27,930	26,352	1,578
Total sanitation	\$ 222,187	\$ 222,187	\$ 227,543	\$ (5,356)
Conservation of natural resources				
Agricultural inspection	\$ 11,592	\$ 11,592	\$ 10,250	\$ 1,342
Water planning	134,450	134,450	149,229	(14,779)
Total conservation of natural resources	\$ 146,042	\$ 146,042	\$ 159,479	\$ (13,437)
Total Expenditures	\$ 404,978	\$ 404,978	\$ 433,931	\$ (28,953)
Excess of Revenues Over (Under) Expenditures	\$ 44,400	\$ 44,400	\$ 77,978	\$ 33,578
Other Financing Sources (Uses)				
Transfers out	-	-	(26,051)	(26,051)
Net Change in Fund Balance	\$ 44,400	\$ 44,400	\$ 51,927	\$ 7,527
Fund Balance - January 1	958,456	958,456	958,456	-
Fund Balance - December 31	\$ 1,002,856	\$ 1,002,856	\$ 1,010,383	\$ 7,527

The notes to the required supplementary information are an integral part of this schedule.

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**ROCK COUNTY
LIVERNE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2008

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund, Public Works Special Revenue Fund, Family Services Special Revenue Fund, Land Management Special Revenue Fund, and the Debt Service Fund. The expenditure budget is approved at the fund level. The Ditch Special Revenue Fund and the Veterans Memorial Special Revenue Fund are not budgeted for.

The budgets may be amended or modified at any time by the County Board. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the General Fund and budgeted special revenue funds.

2. Budget Basis of Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles.

3. Budget Amendments

The County did not amend any of its expenditure budgets during the year.

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Budget	Excess
General Fund	\$ 4,779,313	\$ 4,308,657	\$ 470,656
Special Revenue Funds			
Public Works	5,167,014	2,072,322	3,094,692
Family Services	2,682,149	2,592,804	89,345
Land Management	433,931	404,978	28,953

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SUPPLEMENTARY INFORMATION

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**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 111,066	\$ 111,066	\$ 97,482	\$ (13,584)
Intergovernmental	24,495	24,495	35,342	10,847
Total Revenues	\$ 135,561	\$ 135,561	\$ 132,824	\$ (2,737)
Expenditures				
Debt service				
Principal	\$ 70,045	\$ 70,045	\$ 125,000	\$ (54,955)
Interest	65,113	65,113	67,664	(2,551)
Administrative (fiscal) fees	403	403	403	-
Total Expenditures	\$ 135,561	\$ 135,561	\$ 193,067	\$ (57,506)
Net Change in Fund Balance	\$ -	\$ -	\$ (60,243)	\$ (60,243)
Fund Balance - January 1	140,142	140,142	140,142	-
Fund Balance - December 31	\$ 140,142	\$ 140,142	\$ 79,899	\$ (60,243)

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**ROCK COUNTY
LUVERNE, MINNESOTA**

AGENCY FUNDS

Family Services Collaborative - to account for the collection and disbursement of funds for the local collaborative.

Social Welfare - to account for the collection and disbursement of funds held on behalf of individuals in the Social Welfare program.

Taxes and Penalties - to account for the collection of taxes and penalties and their distribution to the various funds and governmental units.

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**ROCK COUNTY
LIVERNE, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 271,567	\$ 108,172	\$ 123,880	\$ 255,859
<u>Liabilities</u>				
Accounts payable	\$ 271,567	\$ 108,172	\$ 123,880	\$ 255,859
<u>SOCIAL WELFARE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 26,049	\$ 286,221	\$ 281,354	\$ 30,916
<u>Liabilities</u>				
Accounts payable	\$ 26,049	\$ 286,221	\$ 281,354	\$ 30,916
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 213,615	\$ 10,876,458	\$ 11,030,109	\$ 59,964
<u>Liabilities</u>				
Due to other governments	\$ 213,615	\$ 10,876,458	\$ 11,030,109	\$ 59,964

**ROCK COUNTY
LIVERNE, MINNESOTA**

Statement 1
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 511,231	\$ 11,270,851	\$ 11,435,343	\$ 346,739
<u>Liabilities</u>				
Accounts payable	\$ 297,616	\$ 394,393	\$ 405,234	\$ 286,775
Due to other governments	213,615	10,876,458	11,030,109	59,964
Total Liabilities	\$ 511,231	\$ 11,270,851	\$ 11,435,343	\$ 346,739

OTHER SCHEDULE

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**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 6

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Shared Revenue

State

Highway users tax	\$ 3,242,246
County program aid	731,105
PERA rate reimbursement	15,088
Disparity reduction aid	6,905
Police aid	70,000
Enhanced 911	81,820
Market value credit	425,000
	425,000

Total Shared Revenue **\$ 4,572,164**

Reimbursement for Services

Minnesota Department of Human Services **\$ 176,355**

Payments

Local

Payments in lieu of taxes	\$ 36,977
Local	46,150
	46,150

Total Payments **\$ 83,127**

Grants

State

Minnesota Department/Board of	
Human Services	\$ 511,589
Natural Resources	13,650
Public Safety	30,000
Transportation	140,428
Water and Soil Resources	121,120
Pollution Control Agency	58,982
	58,982

Total State **\$ 875,769**

Federal

Department of	
Agriculture	\$ 80,869
Health and Human Services	530,945
Transportation	353,689
Homeland Security	12,866
	12,866

Total Federal **\$ 978,369**

Total State and Federal Grants **\$ 1,854,138**

Total Intergovernmental Revenue **\$ 6,685,784**

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**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 7

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Rock County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Rock County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Rock County were disclosed during the audit.
- D. A significant deficiency relating to the audit of the major federal award programs is reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133." The significant deficiency is not a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for Rock County expresses an unqualified opinion.
- F. A finding relative to a major federal award program for Rock County was reported as required by Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- | | |
|--------------------------------------|--------------|
| Highway Planning and Construction | CFDA #20.205 |
| Child Support Enforcement Title IV-D | CFDA #93.563 |
| Medical Assistance Program | CFDA #93.778 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Rock County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

05-1 Segregation of Duties

One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction.

Due to the limited number of personnel within some County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Rock 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.

Some of the County's departments that collect fees have segregation of duties weaknesses. These departments generally have one staff person who is responsible for billing, collecting, depositing, and recording receipts as well as reconciling bank accounts.

We recommend that Rock County's management be aware of the lack of segregation of duties within the accounting functions and, if possible, implement and monitor oversight procedures to ensure that internal control policies and procedures are being followed by staff. We also recommend the County management cross-train employees so backup personnel are available for all necessary functions.

Client's Response:

Rock County management is aware of segregation of accounting duties and will continue to work on oversight procedures within limited staffing constraints.

06-3 Audit Adjustments

A control deficiency 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 misstatements of the financial statements on a timely basis. A control deficiency that typically is considered significant is the identification by the auditor of a material misstatement in the financial statements not initially identified by the entity's internal controls.

During our audit, we proposed numerous adjustments that resulted in significant changes to the County's financial statements. The adjustments resulted from: errors made in recording transactions and with the mapping of various account codes; controls over calculating the proper amounts of assets and liabilities did not detect a number of errors, which resulted in the County's records understating assets and liabilities and overstating fund balance, revenues, and expenditures; and the County did not consider the need for controls over the recording of certain accounting transactions. The inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements could be not fairly presented.

We recommend that the County review internal controls currently in place, then design and implement procedures to improve internal controls over financial reporting to detect misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

Client's Response:

Rock County will improve internal controls over financial reporting to ensure accuracy in the financial statements.

ITEMS ARISING THIS YEAR

08-1 Controls Over Medical Assistance Recoveries

The County does not review or monitor the status of medical assistance (MA) recoveries or the subsequent payment to the Minnesota Department of Human Services (DHS) for the state and federal share of such collections.

At the time of our audit, we noted the County had received MA recovery collections during 2008 but made no payments to DHS for the state and federal shares of collections. A liability had not been recorded by the County for the amount of funds on hand that were owed to DHS.

In March 2009, the County remitted \$27,854 to DHS for a portion of the recoveries collected during 2008 and late 2007. The County's Fiscal Supervisor determined the County's total liability at the end of December 2008 was \$62,649.

We recommend that the County implement internal controls to ensure collections of MA recoveries are reported to DHS on a timely basis. We also recommend the process for collecting, reporting, and remitting MA recoveries be monitored by appropriate levels of the County's staff and that MA recoveries be reconciled for financial reporting at the end of the year.

Client's Response:

Rock County Family Services will implement internal controls for MA collections and will improve reporting to DHS on a timely basis. MA recoveries will be appropriately monitored and reconciled for financial reporting at year-end.

08-2 Information System Risk Management

County management is responsible for internal controls related to its information system. This responsibility extends to monitoring ongoing activities provided by service organizations. Rock County contracts with Computer Professionals Unlimited, Inc. (CPUI), a service organization, to provide:

- computer hardware for hosting the County's applications;
- processing of accounting transactions and other data;
- daily, weekly, and full system back ups of applications and processed data; and
- disaster recovery planning for continued operations.

The County has not developed a formal plan to identify and manage risks associated with this information system arrangement. The County could partially manage these risks if CPUI obtained an audit of its control objectives and control activities. These audits are performed in accordance with Statement on Auditing Standards (SAS) No. 70, *Service Organizations, as amended*. At the present time, a SAS 70 Service Auditor's Report for CPUI was not available.

During our site visit to CPUI, we noted that computers were not located in a restricted area away from public view. The computers are in an unlocked cage. Daily backup tapes for information processed Monday through Thursday are kept onsite in a locked metal cabinet; however, the cabinet is not designed to protect the tapes from the heat that would be generated in the event of a fire. One fire extinguisher was observed in the office. Weekly and full system backup information is kept at an off-site location.

We recommend that Rock County management establish a formal plan to meet its responsibilities for monitoring internal controls related to its information system. This should include documented consideration of services provided by CPUI. To specifically address hardware and back up physical control weaknesses associated with CPUI, we recommend County management work with CPUI to manage and minimize those risks. Also, the County should consider the possibility of requesting that CPUI obtain a SAS 70 audit.

Client's Response:

CPUI will establish a fireproof locked room for the main computer and a fireproof vault for the daily backup tapes. Weekend backup tapes will continue to be stored in an off-site fireproof vault. Rock County will work with CPUI to develop a plan to identify and manage risks associated with the County's information.

PREVIOUSLY REPORTED ITEMS RESOLVED

Computer System Controls (05-8)

The County did not have a well-maintained policy and procedures manual to evaluate what risks could negatively impact the operations of its computer systems. Several employees had access to add, change, and delete menus that did not pertain to their job duties. Password controls were weak, and the County had no disaster recovery plan.

Resolution

Rock County implemented an accounting policies and procedures manual that addresses the internal control risks associated with the County's computer systems and communicates those risks to employees. The County developed a password policy and disaster recovery plan.

Charge Accounts at Local Businesses (05-9)

County departments had set up charge accounts at various businesses without formal guidance from the County Board. This decentralized charge account process exposed the County to risk of inappropriate or unbudgeted purchases.

Resolution

The County adopted a Charge Account Policy that indicates proper use and should improve controls over purchases with charge accounts.

Accounting System Journal Entry Function (05-10)

The County did not limit access to the accounting system journal entry function to select County employees. Many journal entries made by personnel from the Auditor/Treasurer's Office were approved, but other journal entries made to the accounting system were not reviewed or approved by anyone.

Resolution

Only employees with logical need are allowed access to the journal entry system. Controls have been implemented over the journal entry process and approval is required to post entries for all departments.

Preparation of Financial Statements (06-2)

The County lacked internal control over preparation of financial statements in accordance with generally accepted accounting principles.

Resolution

The County continued to obtain the training and expertise to internally prepare its annual financial statements and prepared draft copies of the financial statements of the governmental funds and the budgetary comparison schedules for 2008.

Accounting Policies and Procedures Manual (06-4)

Rock County did not have a current and comprehensive accounting policies and procedures manual.

Resolution

The County Board approved an accounting policies and procedures manual on May 19, 2009.

New Vendors (06-5)

The County did not have any procedures for determining if new vendors had been added to the accounts payable system or if the new vendors added were legitimate vendors.

Resolution

Rock County implemented procedures to monitor and approve additions or changes to vendors.

Capital Asset Policies and Procedures (06-11)

Capital assets procedures utilized by the County in maintaining the capital asset system differed from the policy formally approved by the County Board.

Resolution

The capital assets policy was re-evaluated by the County and updated in an accounting policies and procedures manual that defines the County's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods.

Documenting and Monitoring Internal Controls (07-1)

The County had not documented the significant internal controls in its accounting system or developed a plan that called for monitoring the internal control structure on a regular basis.

Resolution

The County Board approved an accounting policies and procedures manual on May 19, 2009, and County management made progress in documenting significant internal controls in place.

Payroll (07-2)

No controls existed to verify pay rates in the payroll system were accurate or that pay rates were updated for authorized reasons. Payroll information changes were not reviewed.

Resolution

The Rock County Administrator reviews and signs the payroll journal bi-weekly to verify accurate rates of pay for all County employees.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

ITEM ARISING THIS YEAR

08-3 Charges at Family Services (CFDA Nos. 93.563 and 93.778)

Questioned Costs: \$4,468

Two instances of unallowable charges to the Department of Human Services (DHS) were discovered during the audit. The County included \$1,066 for coffee for the break room and a capital allocation of \$3,402 to the Retired Senior Volunteer Program of Southwest Minnesota in its administrative expenditures reports to DHS.

OMB Circular A-87, Attachment B, paragraph 20 states, "Costs of goods or services for personal use of the governmental unit's employees is unallowable." OMB Circular A-87, Attachment B, paragraph 13, states, "Contributions and donations, including cash, property, and services, by governmental units to others, regardless of the recipient, are unallowable."

Rock County has determined that Family Services pay half of the quarterly information technology payroll expenditures without any documentation for the charge. This amount is then reported to DHS on quarterly Income Maintenance and Social Services administration reports for reimbursement.

OMB Circular A-87 cost principles indicate overhead administrative expenditures should be supported with documentation for the charges. Without such documentation, it is not possible to tell if the County is over or under reporting its overhead administrative expenditures.

We recommend the County contact DHS regarding the unallowable charges to determine if expenditures for a future quarter should be adjusted. We also recommend that the County document the basis for the information technology charges to Family Services.

Corrective Action Plan:

Contact Person Responsible for Corrective Action:

Lisa DeBoer

Action Planned:

Rock County Family Services will no longer claim the unallowable charges of coffee and RSVP allocation as administrative expenditures and will contact DHS regarding any adjustments that need to be made to quarterly reports.

Rock County will also provide documentation for the information technology charges to Family Services.

Completion Date:

Corrective action and documentation will be completed in 2009.

PREVIOUSLY REPORTED ITEM RESOLVED

Reimbursement Request Deficiencies - CFDA #20.205 (06-12)

It was noted that several reimbursement requests made by the County were not timely.

Resolution

Improvements were noted as reimbursement requests were completed more timely.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

08-4 Default and Collateral Substitution

No written agreement between the County and First Farmers & Merchants Bank addresses the default language required by Minn. Stat. § 118A.03, subds. 4 and 7. The collateral control agreement between the County and First Farmers & Merchants Bank provides that the County “. . . consents to any sale, transfer for value or redemption of any or all of the Securities and to any reinvestment of the proceeds. . . .”

Minn. Stat. § 118A.03, subd. 4, states: “The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged.” Minn. Stat. § 118A.03, subd. 7, specifies certain instances that constitute default by the financial institution.

Minn Stat. § 118A.03, subd. 5, states, “[a] financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the governmental entity and receiving confirmation.” The processes described by the bank do not meet this standard because they allow the financial institution to substitute collateral before it gives any notice to the governmental entity.

We recommend that the County review this security agreement to ensure that it is consistent with the default language of Minn. Stat. § 118A.03, subds. 4 and 7, and that the required language is included. We also recommend the County review the procedures used for collateral substitutions for compliance with Minn. Stat. § 118A.03, subd. 5.

Client’s Response:

Rock County is working with management of First Farmers & Merchants Bank regarding the default language and will have an agreement by 2009.

PREVIOUSLY REPORTED ITEMS RESOLVED

Depository Pledge Agreements (06-13)

The County could not provide depository pledge agreements between the County and some of its authorized banks.

Resolution

Depository pledge agreements to document the procedures for the County to follow in order to receive the collateral pledged if a financial institution defaults on its obligations were obtained by the County.

Settlement of In Lieu of Tax Monies (07-3)

Rock County received payment in lieu of tax monies from the State of Minnesota in July 2006 and 2007. The monies were receipted into the County's General Fund. The County did not allocate the receipts to any other taxing districts during 2006 or 2007.

Resolution

The County remitted the payment in lieu of tax monies from the State of Minnesota to other taxing districts to comply with Minn. Stat. § 97A.061, subd. 2(a).

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

06-16 Tax Identification Number

The Buffalo Ridge Rail Authority uses the County's tax identification number on its bank account even though the organization is not part of the County. The December 31, 2008, bank balance of the account was \$41,145.

Only accounts of the County and the organizations for which the County has reporting requirements or other responsibilities should use the County's tax identification number.

We recommend that the County inform the unauthorized organization currently using the County's tax identification number that it can no longer use the number.

Client's Response:

Buffalo Ridge Rail Authority has been informed and will resolve in 2009.

PREVIOUSLY REPORTED ITEM RESOLVED

Meeting Minutes (07-4)

We noted deficiencies with the County's Board minutes including absent minutes, lack of signatures, and business conducted without a quorum of members present.

Resolution

A portion of the minutes reviewed were complete, part of the official record, and signed and dated by the designated members of the County following Board approval. We also noted no instances where meetings were not adjourned when a quorum was not present.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statement, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Schedule 7
(Continued)

In 2008, the legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows local governments to create both revocable and irrevocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both revocable and irrevocable OPEB trusts; and
- it also permits local governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

Some of the issues that the County Board will need to address in order to comply with GASB Statement 45 are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to comply with the legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;
- if an OPEB trust will be established, the County will have to decide whether to establish a revocable or an irrevocable trust, and report that trust appropriately in the financial statements; and
- in order to determine annual costs and liabilities to be recognized, the County Board will have to decide whether to hire an actuary.

GASB Statement 45 would be applicable to Rock County for the year ended December 31, 2009.

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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*

Board of County Commissioners
Rock County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 7, 2009. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the Rock County Rural Water District, which represents the amounts shown as the discretely presented component unit, as described in our report on Rock County's financial statements. This report does not include the results of the other auditor's 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, we considered Rock County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 05-1, 06-3, 08-1, and 08-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Rock County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 06-3 to be a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Rock County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 08-4.

Also included in the Schedule of Findings and Questioned Costs is a management practices comment and an other item for consideration. We believe the recommendation and information to be of benefit to Rock County, and they are reported for that purpose.

Rock County's written responses to the significant deficiencies, material weakness, legal compliance, and management practice findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

October 7, 2009

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REBECCA OTTO
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Rock County

Compliance

We have audited the compliance of Rock County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. Rock County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rock County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Rock County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of Rock County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the County's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 08-3 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 7, 2009. We did not audit the financial statements of the Rock County Rural Water District, which represents the amounts shown as the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed here, insofar as it relates to amounts included for the Rock County Rural Water District component unit, is based solely on the report of the other auditors. Our audit was performed for the purpose of forming opinions on the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rock County's written corrective action plan to the finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's plan and, accordingly, we express no opinion on it.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

October 7, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 8

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	<u>\$ 80,869</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 547,370
Formula Grants for Other Than Urbanized Areas	20.509	162,484
Highway Safety Cluster		
State and Community Highway Safety	20.600	3,000
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	<u>4,286</u>
Total U.S. Department of Transportation		<u>\$ 717,140</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families (TANF)	93.558	\$ 68,458
Child Support Enforcement Title IV-D	93.563	137,942
Refugee and Entrant Assistance	93.566	204
Child Care and Development Block Grant	93.575	5,207
Child Welfare Services - State Grants	93.645	6,848
Foster Care - Title IV-E	93.658	44,057
Social Services Block Grant Title XX	93.667	72,555
Chafee Foster Care Independence Program	93.674	1,873
Children's Health Insurance Program	93.767	228
Medical Assistance Program	93.778	192,497
Block Grants for Community Mental Health Services	93.958	<u>1,076</u>
Total U.S. Department of Health and Human Services		<u>\$ 530,945</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Homeland Security Grant Program	97.067	<u>\$ 12,866</u>
Total Federal Awards		<u><u>\$ 1,341,820</u></u>

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**ROCK COUNTY
LUVERNE, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Rock County's primary government. The County's reporting entity is defined in Note 1 to the financial statements. The discretely presented component unit had no federal expenditures.

2. Basis of Presentation

The accounting records for grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual--when both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Rock County considers all revenues to be available if they are collected within 60 days of the current period. Expenditures are recorded when the liability is incurred.

The information in the schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

3. Reconciliation to Schedule of Intergovernmental Revenues

Federal grant revenue per Schedule of Intergovernmental Revenues	\$ 978,369
Highway Planning and Construction grant monies spent in 2008 and not received until May and June of 2009 (CFDA #20.205)	<u>363,451</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 1,341,820</u>

4. Passed Through to Subrecipients

During 2008, the County did not pass any federal money to subrecipients.

5. Pass-Through Grant Numbers

Pass-through grant numbers were not assigned by the pass-through agencies.