

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto  
State Auditor**

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**ROCK COUNTY  
LIVERNE, MINNESOTA**

**FOR THE YEAR ENDED DECEMBER 31, 2011**

## **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, 2011**



**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  
LUVERNE, MINNESOTA**

ORGANIZATION SCHEDULE  
2011

Office	Name	Term Expires
<b>Commissioners</b>		
1st District	Kenneth Hoime	January 2013
2nd District	Stanley Williamson	January 2015
3rd District	Ronald Boyenga**	January 2013
4th District	Robert Jarchow*	January 2015
5th District	Jane Wildung Lanphere	January 2013
<b>Officers</b>		
<b>Elected</b>		
Attorney	Donald R. Klosterbuer	January 2015
Sheriff	Evan Verbrugge	January 2015
<b>Appointed</b>		
Administrator	Kyle J. Oldre	Indefinite
Auditor/Treasurer	Ashley Kurtz	Indefinite
Highway Engineer	Mark Sehr	Indefinite
Land Records Director	Thomas Houselog	Indefinite

\*Chair 2011

\*\*Chair 2012

**ROCK COUNTY  
LIVERNE, MINNESOTA**

**ORGANIZATION SCHEDULE  
ROCK COUNTY RURAL WATER DISTRICT  
2011**

<u>Position</u>	<u>Name</u>	<u>Term Expires</u>
Chair	Marvin Tofteland	January 2013
Vice Chair	Lowell Jauert	January 2013
Secretary	Nancy Overgaard	January 2014
Treasurer	Ronald Boyenga	January 2012
Director	Harold Fick	January 2012
Director	Arthur Boeve	January 2012
Director	Paul Arends	January 2014



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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Rock County

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

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

In our opinion, the 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, 2011, 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.

As discussed in Note 1.D.11. to the financial statements, during the year ended December 31, 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Rock County's basic financial statements as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly 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 September 24, 2012, 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, 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

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 24, 2012

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

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**ROCK COUNTY  
LUVERNE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2011  
(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, 2011. 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 \$53,929,085, of which \$46,691,750 is invested in capital assets, net of related debt, and \$1,287,700 is restricted to specific purposes. The \$5,949,635 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net assets increased by \$1,865,694 for the year ended December 31, 2011. A large part of the increase is attributable to an increase in capital assets, net of accumulated depreciation.
- The net cost of governmental activities for the current fiscal year was \$3,115,338. General revenues and other items totaling \$4,981,032 funded the net cost.
- At the close of 2011, Rock County's combined ending governmental fund balances totaled \$7,535,120, an increase of \$423,646 from 2010. Of this balance, \$3,276,438 was unassigned by Rock County and thus available for spending at the government's discretion.
- For the year ended December 31, 2011, the assigned and unassigned balance of the General Fund was \$3,641,764, or 78.1 percent, of the total General Fund expenditures for that year. This represents an increase from 2010, which had 69.7 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 level 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.

### **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 27 through 69 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 \$53,929,085 at the close of 2011. The largest portion of Rock County's net assets (86.6 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	
	2011	2010
<b>Assets</b>		
Current and other assets	\$ 9,244,875	\$ 9,329,012
Capital assets	48,212,077	46,771,681
Total Assets	\$ 57,456,952	\$ 56,100,693
<b>Liabilities</b>		
Long-term liabilities	\$ 2,835,219	\$ 2,963,392
Current liabilities	692,648	1,073,910
Total Liabilities	\$ 3,527,867	\$ 4,037,302
<b>Net Assets</b>		
Invested in capital assets, net of related debt	\$ 46,691,750	\$ 45,141,397
Restricted	1,287,700	1,383,928
Unrestricted	5,949,635	5,538,066
Total Net Assets	\$ 53,929,085	\$ 52,063,391

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 11.0 percent of the net assets.

**Governmental Activities**

The County's governmental activities increased net assets by 3.6 percent (\$53,929,085 for 2011 compared to \$52,063,391 for 2010). Key elements in this increase in net assets are as follows:

**Changes in Net Assets**

	Governmental Activities	
	2011	2010
<b>Revenues</b>		
<b>Program revenues</b>		
Fees, charges, fines, and other	\$ 2,574,090	\$ 2,293,323
Operating grants and contributions	5,029,196	5,020,453
Capital grants and contributions	1,011,628	898,497
<b>General revenues</b>		
Property taxes	4,121,025	3,780,512
Unrestricted state aid	504,534	698,825
Investment earnings	85,466	112,296
Other	270,007	190,976
Total Revenues	\$ 13,595,946	\$ 12,994,882

	Governmental Activities	
	2011	2010
Expenses		
General government	\$ 2,310,175	\$ 2,390,841
Public safety	1,989,541	1,855,809
Highways and streets	3,323,543	3,180,265
Sanitation	782,502	685,600
Human services	2,306,694	2,463,667
Health	113,452	117,880
Culture and recreation	310,248	364,038
Conservation of natural resources	504,284	695,865
Economic development	1,500	500
Interest	88,313	81,062
Total Expenses	<u>\$ 11,730,252</u>	<u>\$ 11,835,527</u>
Change in Net Assets	\$ 1,865,694	\$ 1,159,355
Net Assets - January 1	<u>52,063,391</u>	<u>50,904,036</u>
Net Assets - December 31	<u>\$ 53,929,085</u>	<u>\$ 52,063,391</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 \$7,535,120, an increase of \$423,646 in comparison with the prior year. Of the combined ending fund balances, \$6,088,013 represents assigned and unassigned fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is nonspendable, restricted, or committed 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 assigned and unassigned fund balance of \$3,641,764. As a measure of the General Fund's liquidity, it may be useful to compare assigned and unassigned fund balance to total expenditures. The General Fund's assigned and unassigned fund balance represents 78.1 percent of total General Fund expenditures. During 2011, the ending fund balance increased by \$538,798. The primary reason for this increase was due to greater than anticipated revenues.

The Public Works Special Revenue Fund had an assigned fund balance of \$712,505 at fiscal year-end, representing 13.1 percent of its annual expenditures. The ending fund balance increased \$199,471 during 2011, primarily due to greater than anticipated revenues.

The Family Services Special Revenue Fund had an assigned fund balance of \$928,242 at fiscal year-end, representing 39.3 percent of its annual expenditures. The ending fund balance decreased \$70,352 during 2011, primarily due to less than anticipated revenues.

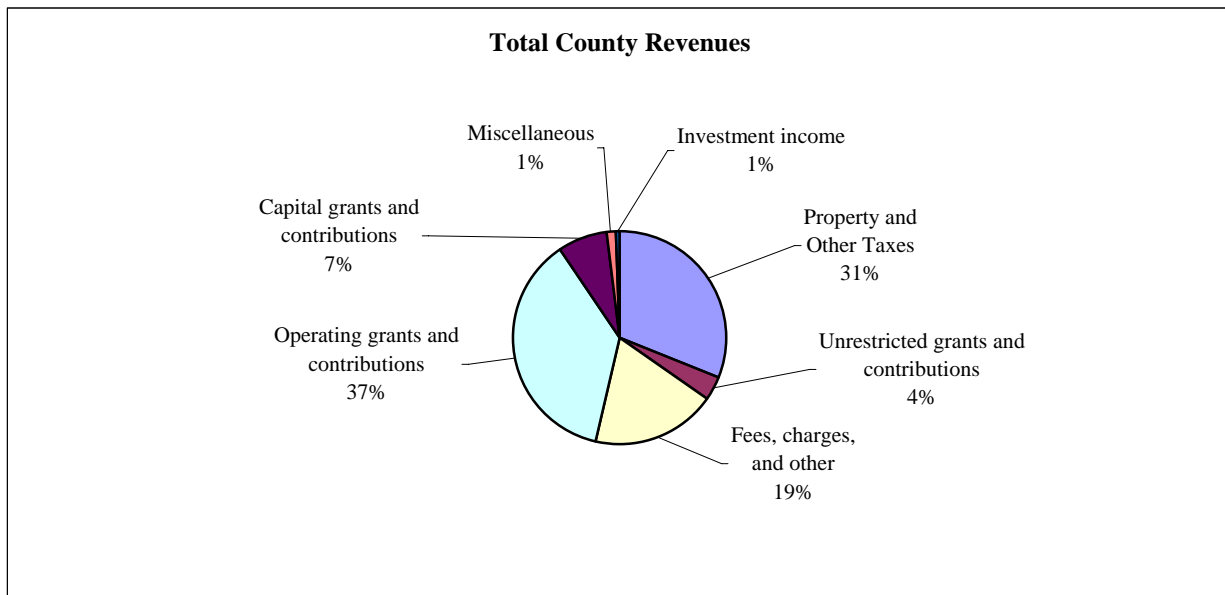
The Land Management Special Revenue Fund had an assigned fund balance of \$805,502 at fiscal year-end, representing 141.0 percent of its annual expenditures. The ending fund balance decreased \$26,886 during 2011, primarily because the County decreased budgeted expenditures with the intent of using reserves.

The Ditch Special Revenue Fund had a restricted fund balance of \$139,476 at fiscal year-end. The ending fund balance decreased \$225,358 during 2011, primarily due to the final construction costs of Judicial Ditch #2.

The Debt Service Fund had a restricted fund balance of \$155,922 at fiscal year-end, representing 120.9 percent of its annual expenditures. The ending fund balance increased \$7,973. The Debt Service Fund consists of tax levy dollars used to pay the bond for the construction of the Law Enforcement Center.

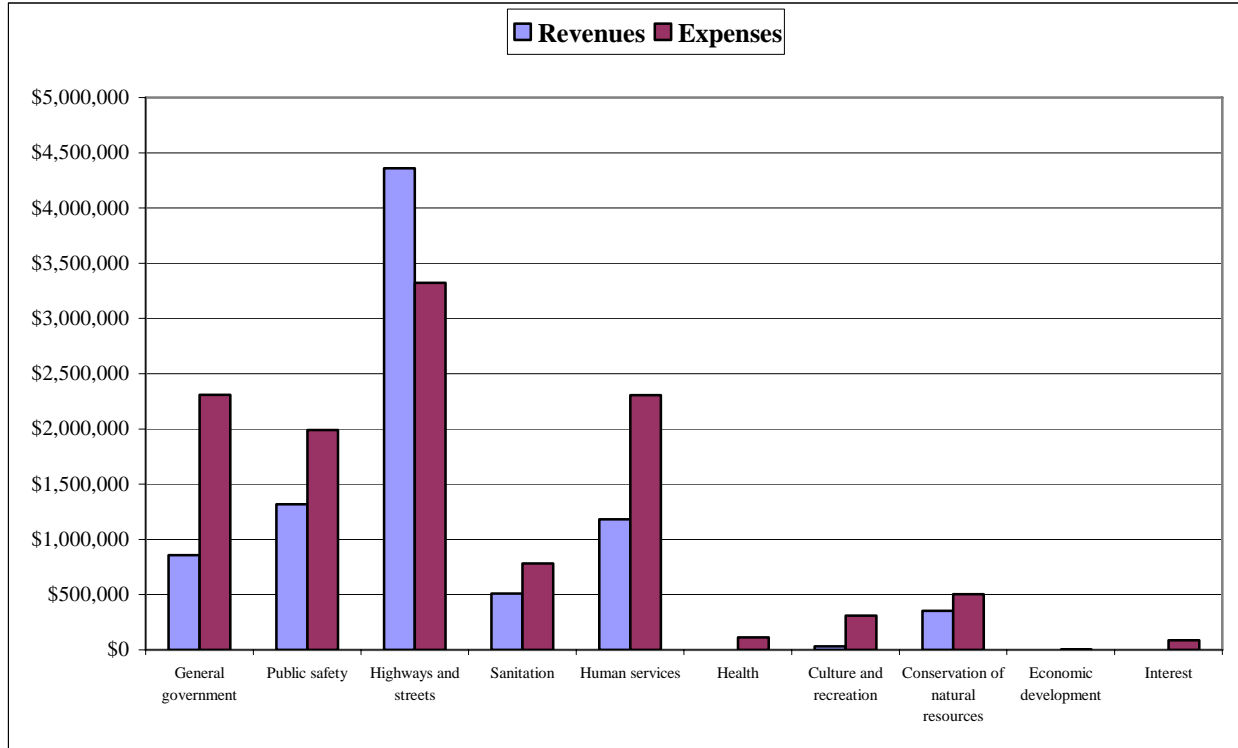
**Governmental Activities**

The County’s total revenues were \$13,595,946. The following table presents the percent of total County revenues by source for the year ended December 31, 2011.



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 \$13,595,946, while total expenses were \$11,730,252. This reflects a \$1,865,694 increase in net assets for the year ended December 31, 2011.

**Program Revenues and Expenses**



The cost of all governmental activities this year was \$11,730,252. 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 \$4,121,025 because some of the costs were paid by those who directly benefited from the programs (\$2,574,090) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,040,824). The County paid for the remaining “public benefit” portion of governmental activities with \$4,981,032 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.

	<b>Governmental Activities</b>			
	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Highways and streets	\$ 3,323,543	\$ 3,180,265	\$ (1,036,584)	\$ (1,043,698)
Human services	2,306,694	2,463,667	1,124,922	1,070,364
General government	2,310,175	2,390,841	1,453,019	1,798,909
Public safety	1,989,541	1,855,809	671,084	722,466
All others	1,800,299	1,944,945	902,897	1,075,213
<b>Totals</b>	<b>\$ 11,730,252</b>	<b>\$ 11,835,527</b>	<b>\$ 3,115,338</b>	<b>\$ 3,623,254</b>

### General Fund Budgetary Highlights

Actual General Fund revenues exceeded final budgeted revenues by \$544,218, primarily due to greater than expected grants and other intergovernmental aid and greater than expected charges for services and miscellaneous revenue.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

The County's capital assets for its governmental activities at December 31, 2011, totaled \$48,212,077 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$1,440,396, or 3.1 percent, from the previous year. The major capital asset events were additions to:

Infrastructure	\$ 3,078,508
Construction in progress	334,140

#### Capital Assets at Year-End Net of Depreciation

	2011	2010
Land	\$ 1,179,782	\$ 1,179,782
Construction in progress	334,140	645,884
Works of art and historical treasures	600,000	600,000
Infrastructure	35,486,027	33,381,584
Buildings	8,079,614	8,267,842
Land improvements	197,097	208,202
Machinery, equipment, and vehicles	2,335,417	2,488,387
<b>Total</b>	<b>\$ 48,212,077</b>	<b>\$ 46,771,681</b>



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 \$2,835,219, which was backed by the full faith and credit of the government.

#### Outstanding Debt

	2011	2010
General obligation bonds	\$ 2,158,715	\$ 2,226,547
Capital leases	85,327	125,284
Loans payable	111,372	46,702
Compensated absences payable	413,410	509,610
Net OPEB obligation	66,395	55,249
Total	<u>\$ 2,835,219</u>	<u>\$ 2,963,392</u>

Minnesota statutes limit the amount of debt a county may levy to three percent of its total market value. At the end of 2011, the County's outstanding debt was 0.17 percent of its total estimated market value of \$1,716,168,600.

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 2011 was 3.6 percent. This compares favorably with the state unemployment rate of 5.8 percent and shows a decrease from the County's 5.2 percent rate of one year ago. The 2011 population is estimated at 9,644.
- On December 27, 2011, the Rock County Board of Commissioners approved the 2012 budget and adopted a property tax levy of \$4,597,714, which represents a 2.5 percent increase over the 2011 property tax levy of \$4,485,575.

#### Rock County Tax Rate and Levy History

2012	29.144%	\$4,597,714
2011	29.599	4,485,575
2010	28.573	4,170,151
2009	32.755	3,801,061
2008	35.717	3,654,847
2007	36.798	3,481,138

- Rock County is very dependent on state-paid aids, credits, and grants. Should there be any unallotments or changes in the state aid calculation or any reductions to grants, 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 Ashley Kurtz, 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, 2011**

	<b>Primary Government Governmental Activities</b>	<b>Rock County Rural Water District Component Unit</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 5,280,039	\$ 595,288
Investments	2,588,500	1,098,098
Investments - restricted	-	1,175,000
Receivables - net	1,182,311	24,097
Receivables - restricted	-	404,362
Inventories	135,066	111,992
Prepaid items	29,664	6,863
Deferred debt issuance costs	29,295	-
Capital assets		
Non-depreciable capital assets	2,113,922	760,414
Depreciable capital assets - net of accumulated depreciation	46,098,155	3,407,192
<b>Total Assets</b>	<b>\$ 57,456,952</b>	<b>\$ 7,583,306</b>
<b><u>Liabilities</u></b>		
Accounts payable and other current liabilities	\$ 654,923	\$ 22,626
Accrued interest payable	29,110	5,472
Customer deposits	8,615	2,036
Long-term liabilities		
Due within one year	265,046	105,000
Due in more than one year	2,570,173	1,017,496
<b>Total Liabilities</b>	<b>\$ 3,527,867</b>	<b>\$ 1,152,630</b>
<b><u>Net Assets</u></b>		
Invested in capital assets - net of related debt	\$ 46,691,750	\$ 3,062,176
Restricted for		
Public safety	199,458	-
Highways and streets	752,967	-
Debt service	137,606	-
Other purposes	197,669	-
Unrestricted	5,949,635	3,368,500
<b>Total Net Assets</b>	<b>\$ 53,929,085</b>	<b>\$ 6,430,676</b>

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

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**ROCK COUNTY  
LUVERNE, MINNESOTA**

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

	<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>
<b><u>Functions/Programs</u></b>		
<b>Primary Government</b>		
<b>Governmental activities</b>		
General government	\$ 2,310,175	\$ 534,542
Public safety	1,989,541	1,008,902
Highways and streets	3,323,543	163,580
Sanitation	782,502	455,270
Human services	2,306,694	191,824
Health	113,452	-
Culture and recreation	310,248	8,639
Conservation of natural resources	504,284	211,333
Economic development	1,500	-
Interest	88,313	-
	<b>\$ 11,730,252</b>	<b>\$ 2,574,090</b>
<b>Total Governmental Activities</b>	<b>\$ 11,730,252</b>	<b>\$ 2,574,090</b>
<b>Component Unit</b>		
Rock County Rural Water District	<b>\$ 711,309</b>	<b>\$ 692,939</b>

**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**

<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>	
<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>	<u>Rock County Rural Water District Component Unit</u>
\$ 317,814	\$ 4,800	\$ (1,453,019)	
309,555	-	(671,084)	
3,189,719	1,006,828	1,036,584	
55,950	-	(271,282)	
989,948	-	(1,124,922)	
-	-	(113,452)	
23,846	-	(277,763)	
142,364	-	(150,587)	
-	-	(1,500)	
-	-	(88,313)	
<u>\$ 5,029,196</u>	<u>\$ 1,011,628</u>	<u>\$ (3,115,338)</u>	
<u>\$ -</u>	<u>\$ 68,712</u>		<u>\$ 50,342</u>
		\$ 4,121,025	\$ -
		20,795	-
		10,159	-
		65,139	-
		504,534	-
		85,466	57,130
		173,914	-
		<u>\$ 4,981,032</u>	<u>\$ 57,130</u>
		\$ 1,865,694	\$ 107,472
		<u>52,063,391</u>	<u>6,323,204</u>
		<u>\$ 53,929,085</u>	<u>\$ 6,430,676</u>

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## **FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**ROCK COUNTY  
LUVERNE, MINNESOTA**

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

	<b>General</b>	<b>Public Works</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 2,491,286	\$ 588,343
Petty cash and change funds	1,475	75
Investments	1,720,500	860,000
Taxes receivable		
Prior	15,731	4,192
Special assessments receivable		
Prior	-	-
Accounts receivable	42,815	1,294
Accrued interest receivable	14,011	2,871
Loans receivable	-	-
Due from other governments	33,338	943,176
Inventories	-	135,066
Prepaid items	28,914	750
	<b>\$ 4,348,070</b>	<b>\$ 2,535,767</b>
<b>Total Assets</b>	<b>\$ 4,348,070</b>	<b>\$ 2,535,767</b>

**EXHIBIT 3**

<u>Family Services</u>	<u>Land Management</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ 1,009,642	\$ 858,014	\$ 175,282	\$ 155,922	\$ 5,278,489
-	-	-	-	1,550
-	8,000	-	-	2,588,500
6,589	148	-	817	27,477
-	10,857	-	-	10,857
-	-	-	-	44,109
-	13	-	-	16,895
-	106,459	-	-	106,459
-	-	-	-	976,514
-	-	-	-	135,066
-	-	-	-	29,664
<u>\$ 1,016,231</u>	<u>\$ 983,491</u>	<u>\$ 175,282</u>	<u>\$ 156,739</u>	<u>\$ 9,215,580</u>

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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

	<b>General</b>	<b>Public Works</b>
<b><u>Liabilities and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 57,537	\$ 67,346
Salaries payable	80,957	31,678
Compensated absences payable	-	-
Contracts payable	-	240,508
Due to other governments	41,864	1,190
Deferred revenue - unavailable	19,975	947,562
Customer deposits	615	-
	<b>\$ 200,948</b>	<b>\$ 1,288,284</b>
<b>Fund Balances</b>		
Nonspendable		
Inventories	\$ -	\$ 135,066
Loans receivable	-	-
Prepaid items	28,914	750
Restricted for		
Missing heirs	3,549	-
Law library	11,585	-
Recorder's technology fund	88,037	-
Recorder's compliance fund	94,498	-
Enhanced 911	167,417	-
Septic system loans	-	-
Sheriff's contingency	5,574	-
Sheriff's forfeited property	23,086	-
Regional dispatch	3,381	-
Transportation	79,317	-
Unspent bond proceeds	-	-
Highway allotments	-	399,162
Ditch	-	-
Debt service	-	-
Assigned to		
Public works	-	712,505
Family services	-	-
Land management	-	-
Capital improvements	325,000	-
Elections	40,326	-
Unassigned	3,276,438	-
	<b>\$ 4,147,122</b>	<b>\$ 1,247,483</b>
<b>Total Fund Balances</b>	<b>\$ 4,147,122</b>	<b>\$ 1,247,483</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,348,070</b>	<b>\$ 2,535,767</b>

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



**EXHIBIT 3**  
**(Continued)**

<u>Family Services</u>	<u>Land Management</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ 3,730	\$ 36,489	\$ 35,806	\$ -	\$ 200,908
46,707	11,111	-	-	170,453
30,963	-	-	-	30,963
-	-	-	-	240,508
-	-	-	-	43,054
6,589	11,016	-	817	985,959
-	8,000	-	-	8,615
<u>\$ 87,989</u>	<u>\$ 66,616</u>	<u>\$ 35,806</u>	<u>\$ 817</u>	<u>\$ 1,680,460</u>
\$ -	\$ -	\$ -	\$ -	\$ 135,066
-	106,459	-	-	106,459
-	-	-	-	29,664
-	-	-	-	3,549
-	-	-	-	11,585
-	-	-	-	88,037
-	-	-	-	94,498
-	-	-	-	167,417
-	4,914	-	-	4,914
-	-	-	-	5,574
-	-	-	-	23,086
-	-	-	-	3,381
-	-	-	-	79,317
-	-	57,688	-	57,688
-	-	-	-	399,162
-	-	81,788	-	81,788
-	-	-	155,922	155,922
-	-	-	-	712,505
928,242	-	-	-	928,242
-	805,502	-	-	805,502
-	-	-	-	325,000
-	-	-	-	40,326
-	-	-	-	3,276,438
<u>\$ 928,242</u>	<u>\$ 916,875</u>	<u>\$ 139,476</u>	<u>\$ 155,922</u>	<u>\$ 7,535,120</u>
<u>\$ 1,016,231</u>	<u>\$ 983,491</u>	<u>\$ 175,282</u>	<u>\$ 156,739</u>	<u>\$ 9,215,580</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, 2011**

<b>Fund balance - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>7,535,120</b>
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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.		48,212,077
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		985,959
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.

General obligation bonds	\$	(2,185,000)	
Unamortized bond discount		26,285	
Deferred debt issuance costs		29,295	
Capital leases payable		(85,327)	
Loans payable		(111,372)	
Compensated absences		(382,447)	
Net OPEB obligation		(66,395)	
Accrued interest payable		(29,110)	
		(2,804,071)	

<b>Net Assets of Governmental Activities (Exhibit 1)</b>	<b>\$</b>	<b><u>53,929,085</u></b>
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**ROCK COUNTY  
LUVERNE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>General</b>	<b>Public Works</b>
<b>Revenues</b>		
Taxes	\$ 2,388,067	\$ 629,215
Special assessments	-	-
Licenses and permits	2,770	-
Intergovernmental	973,180	4,452,977
Charges for services	1,303,375	511,059
Fines and forfeits	19,286	-
Gifts and contributions	11,831	-
Investment earnings	74,769	19,231
Miscellaneous	369,017	90,369
	<b>\$ 5,142,295</b>	<b>\$ 5,702,851</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 2,066,562	\$ -
Public safety	1,904,884	-
Highways and streets	-	4,779,891
Sanitation	-	419,506
Human services	-	-
Health	16,800	-
Culture and recreation	338,423	-
Conservation of natural resources	132,362	-
Economic development	1,500	-
<b>Intergovernmental</b>	158,922	252,311
<b>Debt service</b>		
Principal	39,957	-
Interest	5,575	-
Administrative (fiscal) charges	-	-
	<b>\$ 4,664,985</b>	<b>\$ 5,451,708</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 477,310</b>	<b>\$ 251,143</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ 60,000	\$ -
Transfers out	-	(60,000)
Loans issued	-	-
Proceeds from the sale of assets	1,488	-
	<b>\$ 61,488</b>	<b>\$ (60,000)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 538,798</b>	<b>\$ 191,143</b>
<b>Fund Balance - January 1</b>	<b>3,608,324</b>	<b>1,048,012</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>8,328</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,147,122</b>	<b>\$ 1,247,483</b>

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

**EXHIBIT 5**

<u>Family Services</u>	<u>Land Management</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ 990,244	\$ 21,552	\$ -	\$ 122,331	\$ 4,151,409
-	209,544	-	-	209,544
-	26,326	-	-	29,096
1,112,144	200,993	-	14,639	6,753,933
54,220	1,974	-	-	1,870,628
-	-	-	-	19,286
-	-	-	-	11,831
-	376	-	-	94,376
137,604	19,123	-	-	616,113
<b>\$ 2,294,212</b>	<b>\$ 479,888</b>	<b>\$ -</b>	<b>\$ 136,970</b>	<b>\$ 13,756,216</b>
\$ -	\$ 37,418	\$ -	\$ -	\$ 2,103,980
-	-	-	-	1,904,884
-	-	-	-	4,779,891
-	363,450	-	-	782,956
2,364,564	-	-	-	2,364,564
-	-	-	-	16,800
-	-	-	-	338,423
-	170,576	200,999	-	503,937
-	-	-	-	1,500
-	-	-	-	411,233
-	-	-	70,000	109,957
-	-	24,359	58,572	88,506
-	-	-	425	425
<b>\$ 2,364,564</b>	<b>\$ 571,444</b>	<b>\$ 225,358</b>	<b>\$ 128,997</b>	<b>\$ 13,407,056</b>
<b>\$ (70,352)</b>	<b>\$ (91,556)</b>	<b>\$ (225,358)</b>	<b>\$ 7,973</b>	<b>\$ 349,160</b>
\$ -	\$ -	\$ -	\$ -	\$ 60,000
-	-	-	-	(60,000)
-	64,670	-	-	64,670
-	-	-	-	1,488
<b>\$ -</b>	<b>\$ 64,670</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 66,158</b>
<b>\$ (70,352)</b>	<b>\$ (26,886)</b>	<b>\$ (225,358)</b>	<b>\$ 7,973</b>	<b>\$ 415,318</b>
<b>998,594</b>	<b>943,761</b>	<b>364,834</b>	<b>147,949</b>	<b>7,111,474</b>
<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,328</b>
<b>\$ 928,242</b>	<b>\$ 916,875</b>	<b>\$ 139,476</b>	<b>\$ 155,922</b>	<b>\$ 7,535,120</b>

**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, 2011**

**Net change in fund balance - total governmental funds (Exhibit 5) \$ 415,318**

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	\$ 985,959	
Deferred revenue - January 1	<u>(1,146,229)</u>	(160,270)

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	\$ 2,927,249	
Current year depreciation	<u>(1,486,853)</u>	1,440,396

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	\$ 70,000	
Capital leases payment	<u>39,957</u>	109,957

Loans issued		(64,670)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences	\$ 127,163	
Change in net OPEB obligation	(11,146)	
Change in accrued interest payable	5,659	
Discount and bond issuance costs amortization	(5,041)	
Change in inventories	<u>8,328</u>	<u>124,963</u>

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 1,865,694**

**FIDUCIARY FUNDS**

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**ROCK COUNTY  
LUVERNE, MINNESOTA**

*EXHIBIT 7*

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

<u>Assets</u>	
Cash and pooled investments	<u>\$ 499,641</u>
 <u>Liabilities</u>	
Accounts payable	\$ 122,219
Due to other governments	<u>377,422</u>
<b>Total Liabilities</b>	<b><u>\$ 499,641</u></b>

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**ROCK COUNTY  
LIVERNE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2011. 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.

Discretely Presented 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 Board of Commissioners appoints the members of the Rural Water District Board, and the District has the

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Unit (Continued)

potential to be a financial burden or benefit to the County. The Rock County Rural Water District was established in 1978 to provide water to rural residents of Rock County with the power, duties, and privileges granted it by Minn. Stat. ch. 116A. Separate financial statements are not prepared.

Joint Ventures

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

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;

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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.

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 accounted for in another fund.

The Public Works Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as committed property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways and accounts for the County's garbage transfer station.

The Family Services Special Revenue Fund accounts for restricted revenue resources from the federal, state, and other oversight agencies, as well as committed property tax revenues used for economic assistance and community social services programs.

The Land Management Special Revenue Fund accounts for restricted special assessment revenues, restricted revenues from the state government, and committed property tax revenues for the maintenance of the County's sanitation, planning and zoning, and water planning functions.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Ditch Special Revenue Fund accounts for special assessment revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.

The Debt Service Fund is used to account for the financial resources restricted for payment of long-term principal, interest, and related costs.

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.

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 taxes are recognized as revenues in the year for which they are levied provided they are also available. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. Property and other taxes, shared revenues, 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

**ROCK COUNTY  
LUVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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.

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, 2011, 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 2011 were \$44,390 for the County.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent maturities of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable governmental funds to indicate that they are not in spendable form.

All receivables, including those of the discretely presented component units, are shown net of an allowance for uncollectibles.

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

4. Inventories and Prepaid Items

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

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.



**ROCK COUNTY  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

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 in 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 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.

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	25 - 40
Improvements other than buildings	20 - 35
Public domain infrastructure	15 - 75
Machinery and equipment	3 - 15

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

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. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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.

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.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

10. Classification of Net Assets

Net assets in the government-wide and the component unit financial statements are classified in the following categories:

Invested in capital assets, net of related debt - the amount of net assets representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

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

Unrestricted net assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

11. Classification of Fund Balances

In 2011, the County implemented the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement requires retroactive restatement of fund balance for the reclassifications made to conform to this statement. Total fund balance did not change. Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

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

**ROCK COUNTY  
LUVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

11. Classification of Fund Balances (Continued)

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

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

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

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

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

12. Minimum Fund Balance

Rock County has adopted a minimum fund balance policy for the General Fund and special revenue funds. The General Fund and special revenue funds are heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of no less than five months of operating expenditures. The fund balance policy was adopted by the County Board on March 20, 2012. At December 31, 2011, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

13. Use of Estimates

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

14. Reclassifications

Several account balances were reclassified as of and for the year ended December 31, 2010, as previously reported due to implementation of GASB Statement 54. These reclassifications were required for comparability to the financial statements as of and for the year ended December 31, 2011. Although comparative statements for 2010 are not presented here, these reclassifications must be considered when comparing the financial statements of this report with those of prior reports.

E. Potential Impact of New Accounting Standards on Current Period Financial Statements

The GASB has approved Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Application of GASB Statement 63 may restate portions of these financial statements.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

Expenditures exceeded budgets in the following funds:

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 4,664,985	\$ 4,366,275	\$ 298,710
Special Revenue Funds			
Public Works	5,451,708	2,092,831	3,358,877
Land Management	571,444	528,239	43,205

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	\$ 5,280,039
Investments	2,588,500
Fiduciary net assets	
Cash and pooled investments	<u>499,641</u>
Total Cash and Investments	<u>\$ 8,368,180</u>

Petty cash and change funds	\$ 1,550
Checking	5,624,795
Money market savings	119,160
Certificates of deposit	2,588,500
Social Welfare Fund checking account	<u>34,175</u>
Total Deposits and Investments	<u>\$ 8,368,180</u>

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the 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, 2011, the County had \$361,222 of uninsured deposits exposed to custodial credit risk.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (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  
LIVERNE, MINNESOTA**

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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 Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage are available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31 2011, the County's investments were not exposed to custodial credit risk.

**ROCK COUNTY  
LUVERNE, MINNESOTA**

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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, 2011, for the County's governmental activities, net of the applicable allowances for uncollectible accounts, are as follows:

	Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 27,477	\$ -
Special assessments	10,857	-
Accounts	44,109	-
Loans receivable	106,459	95,157
Interest	16,895	-
Due from other governments	976,514	-
Total Governmental Activities	\$ 1,182,311	\$ 95,157

**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:

MPCA septic system loans	\$	46,702
Rock County Opportunities, Inc.		30,000
Loans receivable, January 1, 2011	\$	76,702
New loans issued during the year - MPCA		64,670
Payments received during the year		(34,913)
Loans Receivable	\$	106,459

The Land Management Special Revenue Fund has a \$106,459 loans receivable from septic loans issued in 2010 and 2011.

4. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 193,861	\$ -	\$ -	\$ 193,861
Right-of-way	985,921	-	-	985,921
Construction in progress	645,884	334,140	645,884	334,140
Works of art and historical treasures	600,000	-	-	600,000
Total capital assets not depreciated	\$ 2,425,666	\$ 334,140	\$ 645,884	\$ 2,113,922
Capital assets depreciated				
Buildings	\$ 10,256,698	\$ -	\$ -	\$ 10,256,698
Land improvements	242,912	-	-	242,912
Machinery, furniture, and equipment	5,696,905	160,485	111,361	5,746,029
Infrastructure	45,624,713	3,078,508	-	48,703,221
Total capital assets depreciated	\$ 61,821,228	\$ 3,238,993	\$ 111,361	\$ 64,948,860

**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	\$ 1,988,856	\$ 188,228	\$ -	\$ 2,177,084
Land improvements	34,710	11,105	-	45,815
Machinery, furniture, and equipment	3,208,518	313,455	111,361	3,410,612
Infrastructure	12,243,129	974,065	-	13,217,194
	<u>\$ 17,475,213</u>	<u>\$ 1,486,853</u>	<u>\$ 111,361</u>	<u>\$ 18,850,705</u>
Total accumulated depreciation	\$ 17,475,213	\$ 1,486,853	\$ 111,361	\$ 18,850,705
Total capital assets depreciated, net	<u>\$ 44,346,015</u>	<u>\$ 1,752,140</u>	<u>\$ -</u>	<u>\$ 46,098,155</u>
Capital Assets, Net	<u>\$ 46,771,681</u>	<u>\$ 2,086,280</u>	<u>\$ 645,884</u>	<u>\$ 48,212,077</u>

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

Governmental Activities	
General government	\$ 234,126
Culture and recreation	43,477
Public safety	53,187
Highways and streets (including infrastructure)	1,114,717
Sanitation	40,011
Human services	1,335
	<u>1,335</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,486,853</u>

B. Interfund Receivables, Payables, and Transfers

1. Interfund Transfers

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

Transfer to General Fund from Public Works		
Special Revenue Fund	<u>\$ 60,000</u>	Provide funding

**ROCK COUNTY  
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

	Primary Government
Accounts	\$ 200,908
Salaries	170,453
Contracts	240,508
Due to other governments	43,054
Total Payables	\$ 654,923

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, 2011:

Capital Lease	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amounts	Outstanding Balance December 31, 2011
HVAC system	2013	\$45,382	4.45	\$ 361,168	\$ 85,327

The gross amounts of assets included in the statement of net assets recorded under capital leases are \$652,268, and the related accumulated depreciation included in the general government accumulated depreciation is \$230,470.

**ROCK COUNTY  
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Leases

Capital Leases (Continued)

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, 2011, were as follows:

Year Ending December 31	Amount
2012	\$ 45,532
2013	45,532
Total minimum lease payments	\$ 91,064
Less: amount representing interest	(5,737)
Present Value of Future Minimum Lease Payments	\$ 85,327

3. Long-Term Debt

In 2010, Rock County issued General Obligation Ditch Bonds, Series 2010A, in the amount of \$750,000 to finance improvements on Judicial Ditch 2.

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
Special assessment bonds with government commitment 2010 G.O. Ditch Bonds	2021	\$70,000 - \$85,000	1.25 - 3.50	\$ 750,000	\$ 750,000
Less: unamortized discounts					(5,101)
Special Assessment Bonds With Government Commitment, Net					\$ 744,899

**ROCK COUNTY  
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
General obligation bonds					
2005 G.O. Capital Improvement Bonds	2026	\$45,000 - \$125,000	2.90 - 4.30	<u>\$ 1,750,000</u>	\$ 1,435,000
Less: unamortized discounts					<u>(21,184)</u>
Total General Obligation Bonds, Net					<u>\$ 1,413,816</u>

Loans Payable

The County entered into loan agreements with the Minnesota Pollution Control Agency for funding Clean Water Partnership (CWP) projects. The loans are secured by special assessments placed on the individual parcels. Loan payments are reported in the Land Management Fund.

Principal and interest requirements to maturity for clean water loans of \$111,372 for the Rock River Replacement Project are not included because a fixed repayment schedule was not available.

4. Debt Service Requirements

Debt service requirements at December 31, 2011, were as follows:

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2012	\$ 75,000	\$ 56,088	\$ 70,000	\$ 19,050
2013	75,000	53,463	70,000	18,175
2014	80,000	50,650	70,000	17,038
2015	80,000	47,650	70,000	15,638
2016	85,000	44,471	75,000	13,906
2017 - 2021	465,000	169,233	395,000	34,375
2022 - 2026	575,000	63,205	-	-
Total	<u>\$ 1,435,000</u>	<u>\$ 484,760</u>	<u>\$ 750,000</u>	<u>\$ 118,182</u>

**ROCK COUNTY  
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

Year Ending December 31	Capital Leases	
	Principal	Interest
2012	\$ 41,735	\$ 3,797
2013	43,592	1,940
Total	<u>\$ 85,327</u>	<u>\$ 5,737</u>

5. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds payable	\$ 1,505,000	\$ -	\$ 70,000	\$ 1,435,000	\$ 75,000
Less: unamortized discounts	(22,715)	-	(1,531)	(21,184)	-
General obligation bonds, net	<u>\$ 1,482,285</u>	<u>\$ -</u>	<u>\$ 68,469</u>	<u>\$ 1,413,816</u>	<u>\$ 75,000</u>
Special assessment bonds with government commitment	\$ 750,000	\$ -	\$ -	\$ 750,000	\$ 70,000
Less: unamortized discounts	(5,738)	-	(637)	(5,101)	-
Special assessment bonds with government commitment, net	<u>\$ 744,262</u>	<u>\$ -</u>	<u>\$ (637)</u>	<u>\$ 744,899</u>	<u>\$ 70,000</u>
Total bonds payable	\$ 2,226,547	\$ -	\$ 67,832	\$ 2,158,715	\$ 145,000
Capital leases	125,284	-	39,957	85,327	41,735
Loans payable	46,702	64,670	-	111,372	-
Compensated absences	509,610	-	96,200	413,410	78,311
Net OPEB obligation	55,249	11,146	-	66,395	-
Governmental Activities Long-Term Liabilities	<u>\$ 2,963,392</u>	<u>\$ 75,816</u>	<u>\$ 203,989</u>	<u>\$ 2,835,219</u>	<u>\$ 265,046</u>



**ROCK COUNTY  
LIVERNE, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

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 General 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.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan, and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for the General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each 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.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

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 General 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 General 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 General Employees Retirement Fund and the Public Employees Police and Fire Fund. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Funding Policy (Continued)

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

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40

Rock County's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	2011	2010	2009
General Employees Retirement Fund	\$ 250,109	\$ 250,803	\$ 242,186
Public Employees Police and Fire Fund	88,696	86,445	91,604

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

B. Defined Contribution Plan

Six of the elected officials of Rock County are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

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

	Employee	Employer
Contribution amount	\$ 1,015	\$ 1,015
Percentage of covered payroll	5.00%	5.00%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

Rock County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Rock County Board of Commissioners. Retirees are required to pay 100 percent of the premium costs.

The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2011, there were approximately 80 participants of the County in the plan, including 4 retirees. The implicit rate subsidy amount was determined by an actuary study to be \$55,364 for 2011.

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

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$	67,270
Interest on net OPEB obligation		2,486
Adjustment to ARC		(3,246)
		_____
Annual OPEB cost (expense)	\$	66,510
Contributions made		(55,364)
		_____
Increase in net OPEB obligation	\$	11,146
Net OPEB Obligation - Beginning of Year		55,249
		_____
Net OPEB Obligation - End of Year	\$	66,395

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2009, 2010, and 2011, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2009	\$ 67,270	\$ 22,373	33.26%	\$ 44,897
December 31, 2010	66,652	56,300	84.47	55,249
December 31, 2011	66,510	55,364	83.24	66,395

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$513,365, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$513,365. The covered payroll (annual payroll of active employees covered by the plan) was \$3,800,699, and the ratio of the UAAL to the covered payroll was 13.5 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

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

Actuarial Methods and Assumptions

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

In the January 1, 2009, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Rock County's implicit rate of return on the General Fund.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

The annual health care cost trend is 9.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 8 years. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2011, was 26 years.

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters, 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 Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property 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 \$450,000 per claim in 2011. 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.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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5. Risk Management (Continued)

The Southwest/West Central 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. Subsequent Events

On May 24, 2012, Rock County issued General Obligation Bonds, Series 2012A, in the amount of \$2,640,000 to finance the acquisition of emergency response radio equipment and Highway Department equipment and to refinance the County's General Obligation Capital Improvement Plan Bonds, Series 2005A.

During 2011, Rock County made written application for the County's health and human service functions to join Southwest Health and Human Services (SWHHS) as of January 1, 2012, and sent notice to terminate the joint powers agreement with Nobles County for Nobles-Rock Community Health Services as of December 31, 2011. The Joint Board of SWHHS approved the request in June 2011. A payment of \$872,167 was made to SWHHS to join the joint powers in January 2012.

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government.

Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

The County 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.



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

B. Contingent Liabilities (Continued)

Lincoln-Pipestone Rural Water System

At December 31, 2011, the Lincoln-Pipestone Rural Water System had \$36,595,000 of general obligation bonds outstanding through 2056. 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 (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 nine participating counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

In 2012, Lincoln County issued a General Obligation Water System Refunding Bond for \$1,050,000 on behalf of the Lincoln-Pipestone Rural Water System to crossover advance refund the General Obligation Water System Refunding Bonds, Series 2003.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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

C. 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 Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Redwood, 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 Rural Water System's Board is solely responsible for the budgeting and financing of the Rural Water System.

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties 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, 2011, are \$36,595,000.

The Lincoln-Pipestone Rural Water System's 2011 financial report shows total net assets of \$48,544,818, including unrestricted net assets of \$19,843,138. The increase in net assets for the year ended December 31, 2011, is \$6,120,627. 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 sent notice to terminate the joint powers agreement as of December 31, 2011.

**ROCK COUNTY  
LUVERNE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. 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, 2011, was \$96,652.

Financial data of the Health Services for the year ended December 31, 2010 (most recent information available), are:

Total Assets	\$	866,001
Total Liabilities		236,893
Total Net Assets		629,108
Total Revenues		1,666,613
Total Expenses		1,523,285
Increase (Decrease) in Net Assets		143,328

The Health Services' long-term debt consists of compensated absences of \$101,858, a net OPEB obligation of \$846, and a capital lease of \$3,392 at December 31, 2010.

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, 2011, was \$62,270.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. 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, 2011:

Total Assets	\$	326,579
Total Liabilities		80,618
Total Net Assets		245,961
Total Revenues		702,463
Total Expenses		757,895
Increase (Decrease) in Net Assets		(55,432)

Rock Nobles Community Corrections' long-term debt consists of compensated absences of \$54,824 and a net OPEB obligation of \$1,698 at December 31, 2011. Complete financial statements of Rock Nobles Community Corrections can be obtained at the Rock County Courthouse, 204 East Brown Street, P. O. Box 509, Luverne, Minnesota 56156-0509.

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, Rock County entered into a joint powers agreement with Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Pipestone, Redwood, Renville, Swift, and Yellow Medicine 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  
LIVERNE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The following is a summary of the Board's annual financial report for the year ended December 31, 2009 (most recent information available):

Total Assets	\$ 2,304,308
Total Liabilities	327,637
Total Equity	1,976,671
Total Revenues	4,271,686
Total Expenditures	4,327,451
Net Increase to Equity	(55,765)

The Board reported no long-term obligations at December 31, 2009.

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 12 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 Joint Powers 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 2011, Rock County contributed \$2,635 to the Joint Powers Board.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Retired and Senior Volunteer Program of Southwest Minnesota (SW-RSVP)

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 comprises one voting member from each participating County and one voting member of the SW-RSVP Advisory Council. In 2011, the County did not make any contributions to the SW-RSVP.

D. 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**

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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, 2011, based on market prices. Pooled investment earnings for 2011 were \$2,916.

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**

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7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Deposits and Investments (Continued)

Rock County is holding short-term investments 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 \$1,175,000 at December 31.

B. Detailed Notes

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	\$ 595,288
Investments	1,098,098
Investments - restricted	<u>1,175,000</u>

Total Deposits and Investments \$ 2,868,386

Petty cash and change funds	\$ 75
Checking	590,147
Savings	5,066
Certificates of deposit	2,178,098
MAGIC Fund CD	<u>95,000</u>

Total Deposits and Investments \$ 2,868,386



**ROCK COUNTY  
LIVERNE, MINNESOTA**

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7. Component Unit Disclosures

B. Detailed Notes

1. Assets (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. Rock 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, 2011, Rock County had \$361,222 of uninsured deposits; a portion thereof belongs to the District and is exposed to custodial credit risk.

Receivables

Receivables as of December 31, 2011, for the Rock County Rural Water District are as follows:

	<u>Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Special assessments	\$ 171	\$ -
Interest	23,926	-
Total Receivables	<u>\$ 24,097</u>	<u>\$ -</u>

**ROCK COUNTY  
LUVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

1. Assets (Continued)

Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land and right-of-way	\$ 118,235	\$ -	\$ 11,648	\$ 106,587
Lewis and Clark project Expansion project	632,123 21,704	- -	- -	632,123 21,704
Total capital assets not depreciated	<u>\$ 772,062</u>	<u>\$ -</u>	<u>\$ 11,648</u>	<u>\$ 760,414</u>
Capital assets depreciated				
Buildings and pumps	\$ 2,886,872	\$ 3,052	\$ 4,652	\$ 2,885,272
Land improvements	-	11,649	-	11,649
Machinery, furniture, and equipment	197,861	28,002	20,507	205,356
Infrastructure - distribution system	4,034,581	3,651	568	4,037,664
Total capital assets depreciated	<u>\$ 7,119,314</u>	<u>\$ 46,354</u>	<u>\$ 25,727</u>	<u>\$ 7,139,941</u>
Less: accumulated depreciation for				
Buildings and pumps	\$ 1,461,459	\$ 74,540	\$ 4,428	\$ 1,531,571
Land improvements	-	958	-	958
Machinery, furniture, and equipment	121,792	17,388	18,070	121,110
Infrastructure - distribution system	1,977,214	102,464	568	2,079,110
Total accumulated depreciation	<u>\$ 3,560,465</u>	<u>\$ 195,350</u>	<u>\$ 23,066</u>	<u>\$ 3,732,749</u>
Total capital assets depreciated, net	<u>\$ 3,558,849</u>	<u>\$ (148,996)</u>	<u>\$ 2,661</u>	<u>\$ 3,407,192</u>
Capital Assets, Net	<u>\$ 4,330,911</u>	<u>\$ (148,996)</u>	<u>\$ 14,309</u>	<u>\$ 4,167,606</u>

Depreciation expense for 2011 was \$195,350.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes (Continued)

2. Liabilities

Payables

Payables at December 31, 2011, were as follows:

Accounts	\$ 14,665
Salaries	<u>7,961</u>
Total Payables	<u>\$ 22,626</u>

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.

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2011</u>
General obligation notes					
2000 G.O. Revenue Note	2019	\$14,000 - \$89,000	1.79	\$ 1,460,000	\$ 668,000
2007 G.O. Revenue Note	2026	\$16,000 - \$31,000	1.02	<u>533,000</u>	<u>437,000</u>
Total General Obligation Notes				<u>\$ 1,993,000</u>	<u>\$ 1,105,000</u>

**ROCK COUNTY  
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

2. Liabilities (Continued)

Debt Service Requirements

Debt service requirements at December 31, 2011, were as follows:

Year Ending December 31	General Obligation Revenue Note 2007		General Obligation Revenue Note 2000	
	Principal	Interest	Principal	Interest
2012	\$ 78,000	\$ 11,957	\$ 27,000	\$ 4,457
2013	80,000	10,561	27,000	4,182
2014	81,000	9,129	28,000	3,907
2015	83,000	7,679	28,000	3,621
2016	84,000	6,193	28,000	3,335
2017 - 2021	262,000	9,433	146,000	12,291
2022 - 2026	-	-	153,000	4,712
Total	<u>\$ 668,000</u>	<u>\$ 54,952</u>	<u>\$ 437,000</u>	<u>\$ 36,505</u>

Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. revenue note 2000	\$ 745,000	\$ -	\$ 77,000	\$ 668,000	\$ 78,000
G.O. revenue note 2007	464,000	-	27,000	437,000	27,000
Total G.O. revenue notes	\$ 1,209,000	\$ -	\$ 104,000	\$ 1,105,000	\$ 105,000
Compensated absences	50,197	-	32,701	17,496	-
Total Long-Term Liabilities	<u>\$ 1,259,197</u>	<u>\$ -</u>	<u>\$ 136,701</u>	<u>\$ 1,122,496</u>	<u>\$ 105,000</u>

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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7. Component Unit Disclosures (Continued)

C. Pension Plans

Full-time and certain part-time employees of the Rock County Rural Water District are covered by the Coordinated Plan administered by the Public Employees Retirement Association of Minnesota as described in Note 4 herein.

The Rock County Rural Water District's contributions to the General Employees Retirement Fund for the years ended December 31, 2011, 2010, and 2009, were \$7,612, \$13,998, and \$14,085, respectively. These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**ROCK COUNTY  
LIVERNE, MINNESOTA**

**EXHIBIT A-1**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,605,023	\$ 2,605,023	\$ 2,388,067	\$ (216,956)
Licenses and permits	1,265	1,265	2,770	1,505
Intergovernmental	509,678	509,678	973,180	463,502
Charges for services	1,217,820	1,217,820	1,303,375	85,555
Fines and forfeits	5,000	5,000	19,286	14,286
Gifts and contributions	-	-	11,831	11,831
Investment earnings	86,000	86,000	74,769	(11,231)
Miscellaneous	173,291	173,291	369,017	195,726
<b>Total Revenues</b>	<b>\$ 4,598,077</b>	<b>\$ 4,598,077</b>	<b>\$ 5,142,295</b>	<b>\$ 544,218</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 213,911	\$ 213,911	\$ 185,512	\$ 28,399
District Court	-	-	330	(330)
Law library	-	-	9,476	(9,476)
County administration	192,823	192,823	218,118	(25,295)
Auditor/Treasurer	284,730	284,730	302,136	(17,406)
Elections	6,800	6,800	6,835	(35)
Accounting and auditing	45,000	45,000	40,206	4,794
Data processing	172,969	172,969	183,647	(10,678)
Attorney	148,233	148,233	148,055	178
Land records	364,940	364,940	359,887	5,053
Buildings and plant	264,505	264,505	249,559	14,946
Veterans service officer	31,286	31,286	26,131	5,155
Transportation	334,670	334,670	331,763	2,907
Veterans memorial	-	-	6,741	(6,741)
Other general government	11,550	11,550	(1,834)	13,384
<b>Total general government</b>	<b>\$ 2,071,417</b>	<b>\$ 2,071,417</b>	<b>\$ 2,066,562</b>	<b>\$ 4,855</b>
<b>Public safety</b>				
Sheriff	\$ 1,538,562	\$ 1,538,562	\$ 1,752,818	\$ (214,256)
Coroner	10,000	10,000	6,422	3,578
Regional dispatch	-	-	28,593	(28,593)
E-911 system	-	-	56,852	(56,852)
Prisoner care	119,000	119,000	60,199	58,801
<b>Total public safety</b>	<b>\$ 1,667,562</b>	<b>\$ 1,667,562</b>	<b>\$ 1,904,884</b>	<b>\$ (237,322)</b>

**ROCK COUNTY  
LUVERNE, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Health</b>				
Community health	\$ 16,800	\$ 16,800	\$ 16,800	\$ -
<b>Culture and recreation</b>				
Historical society	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Minnesota trails	-	-	23,846	(23,846)
Senior citizens	6,204	6,204	4,986	1,218
Library	266,004	266,004	252,826	13,178
Heritage museum	29,370	29,370	30,355	(985)
Library donations	-	-	6,229	(6,229)
Children's library books	-	-	4,261	(4,261)
Other	5,920	5,920	5,920	-
<b>Total culture and recreation</b>	<b>\$ 317,498</b>	<b>\$ 317,498</b>	<b>\$ 338,423</b>	<b>\$ (20,925)</b>
<b>Conservation of natural resources</b>				
Extension	\$ 117,576	\$ 117,576	\$ 116,362	\$ 1,214
Agricultural society	16,000	16,000	16,000	-
<b>Total conservation of natural resources</b>	<b>\$ 133,576</b>	<b>\$ 133,576</b>	<b>\$ 132,362</b>	<b>\$ 1,214</b>
<b>Economic development</b>				
Tourism	\$ 500	\$ 500	\$ 1,500	\$ (1,000)
<b>Intergovernmental</b>				
Public safety	\$ 62,270	\$ 62,270	\$ 62,270	\$ -
Health	\$ 96,652	\$ 96,652	\$ 96,652	\$ -
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 39,957	\$ (39,957)
Interest	\$ -	\$ -	\$ 5,575	\$ (5,575)
<b>Total Expenditures</b>	<b>\$ 4,366,275</b>	<b>\$ 4,366,275</b>	<b>\$ 4,664,985</b>	<b>\$ (298,710)</b>

**ROCK COUNTY  
LUVERNE, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 231,802</b>	<b>\$ 231,802</b>	<b>\$ 477,310</b>	<b>\$ 245,508</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 60,000	\$ 60,000	\$ 60,000	\$ -
Proceeds from the sale of assets	-	-	1,488	1,488
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 60,000</b>	<b>\$ 60,000</b>	<b>\$ 61,488</b>	<b>\$ 1,488</b>
<b>Net Change in Fund Balance</b>	<b>\$ 291,802</b>	<b>\$ 291,802</b>	<b>\$ 538,798</b>	<b>\$ 246,996</b>
<b>Fund Balance - January 1</b>	<b>3,608,324</b>	<b>3,608,324</b>	<b>3,608,324</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,900,126</b>	<b>\$ 3,900,126</b>	<b>\$ 4,147,122</b>	<b>\$ 246,996</b>

**ROCK COUNTY  
LIVERNE, MINNESOTA**

*EXHIBIT A-2*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 694,117	\$ 694,117	\$ 629,215	\$ (64,902)
Intergovernmental	1,057,709	1,057,709	4,452,977	3,395,268
Charges for services	364,000	364,000	511,059	147,059
Investment earnings	32,000	32,000	19,231	(12,769)
Miscellaneous	5,005	5,005	90,369	85,364
<b>Total Revenues</b>	<b>\$ 2,152,831</b>	<b>\$ 2,152,831</b>	<b>\$ 5,702,851</b>	<b>\$ 3,550,020</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 225,738	\$ 225,738	\$ 207,324	\$ 18,414
Maintenance	859,362	859,362	792,301	67,061
Construction	250,361	250,361	3,084,498	(2,834,137)
Equipment and maintenance shops	448,553	448,553	586,514	(137,961)
Material and services for resale	12,000	12,000	13,455	(1,455)
Other	106,859	106,859	95,799	11,060
<b>Total highways and streets</b>	<b>\$ 1,902,873</b>	<b>\$ 1,902,873</b>	<b>\$ 4,779,891</b>	<b>\$ (2,877,018)</b>
<b>Sanitation</b>				
Solid waste	189,958	189,958	419,506	(229,548)
<b>Intergovernmental</b>				
Highways and streets	-	-	252,311	(252,311)
<b>Total Expenditures</b>	<b>\$ 2,092,831</b>	<b>\$ 2,092,831</b>	<b>\$ 5,451,708</b>	<b>\$ (3,358,877)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 60,000</b>	<b>\$ 60,000</b>	<b>\$ 251,143</b>	<b>\$ 191,143</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	(60,000)	(60,000)	(60,000)	-
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 191,143</b>	<b>\$ 191,143</b>
<b>Fund Balance - January 1</b>	<b>1,048,012</b>	<b>1,048,012</b>	<b>1,048,012</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>8,328</b>	<b>8,328</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,048,012</b>	<b>\$ 1,048,012</b>	<b>\$ 1,247,483</b>	<b>\$ 199,471</b>

**ROCK COUNTY  
LUVERNE, MINNESOTA**

*EXHIBIT A-3*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,086,289	\$ 1,086,289	\$ 990,244	\$ (96,045)
Intergovernmental	1,258,187	1,258,187	1,112,144	(146,043)
Charges for services	60,929	60,929	54,220	(6,709)
Miscellaneous	<u>165,000</u>	<u>165,000</u>	<u>137,604</u>	<u>(27,396)</u>
<b>Total Revenues</b>	<b><u>\$ 2,570,405</u></b>	<b><u>\$ 2,570,405</u></b>	<b><u>\$ 2,294,212</u></b>	<b><u>\$ (276,193)</u></b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 902,168	\$ 902,168	\$ 840,663	\$ 61,505
Social services	<u>1,668,237</u>	<u>1,668,237</u>	<u>1,523,901</u>	<u>144,336</u>
<b>Total Expenditures</b>	<b><u>\$ 2,570,405</u></b>	<b><u>\$ 2,570,405</u></b>	<b><u>\$ 2,364,564</u></b>	<b><u>\$ 205,841</u></b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (70,352)</b>	<b>\$ (70,352)</b>
<b>Fund Balance - January 1</b>	<b><u>998,594</u></b>	<b><u>998,594</u></b>	<b><u>998,594</u></b>	<b><u>-</u></b>
<b>Fund Balance - December 31</b>	<b><u><u>\$ 998,594</u></u></b>	<b><u><u>\$ 998,594</u></u></b>	<b><u><u>\$ 928,242</u></u></b>	<b><u><u>\$ (70,352)</u></u></b>

**ROCK COUNTY  
LUVERNE, MINNESOTA**

**EXHIBIT A-4**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 23,817	\$ 23,817	\$ 21,552	\$ (2,265)
Special assessments	208,810	208,810	209,544	734
Licenses and permits	32,489	32,489	26,326	(6,163)
Intergovernmental	162,121	162,121	200,993	38,872
Charges for services	2,275	2,275	1,974	(301)
Investment earnings	-	-	376	376
Miscellaneous	7,714	7,714	19,123	11,409
<b>Total Revenues</b>	<b>\$ 437,226</b>	<b>\$ 437,226</b>	<b>\$ 479,888</b>	<b>\$ 42,662</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Planning and zoning	\$ 37,775	\$ 37,775	\$ 37,418	\$ 357
<b>Sanitation</b>				
Solid waste	\$ 50,778	\$ 50,778	\$ 49,558	\$ 1,220
Recycling	92,749	92,749	89,297	3,452
Hazardous waste	26,930	26,930	35,429	(8,499)
Environmental office	161,825	161,825	189,166	(27,341)
<b>Total sanitation</b>	<b>\$ 332,282</b>	<b>\$ 332,282</b>	<b>\$ 363,450</b>	<b>\$ (31,168)</b>
<b>Conservation of natural resources</b>				
Agricultural inspection	\$ 11,226	\$ 11,226	\$ 11,054	\$ 172
Water planning	146,956	146,956	159,522	(12,566)
<b>Total conservation of natural resources</b>	<b>\$ 158,182</b>	<b>\$ 158,182</b>	<b>\$ 170,576</b>	<b>\$ (12,394)</b>
<b>Total Expenditures</b>	<b>\$ 528,239</b>	<b>\$ 528,239</b>	<b>\$ 571,444</b>	<b>\$ (43,205)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (91,013)</b>	<b>\$ (91,013)</b>	<b>\$ (91,556)</b>	<b>\$ (543)</b>
<b>Other Financing Sources (Uses)</b>				
Loans issued	-	-	64,670	64,670
<b>Net Change in Fund Balance</b>	<b>\$ (91,013)</b>	<b>\$ (91,013)</b>	<b>\$ (26,886)</b>	<b>\$ 64,127</b>
<b>Fund Balance - January 1</b>	<b>943,761</b>	<b>943,761</b>	<b>943,761</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 852,748</b>	<b>\$ 852,748</b>	<b>\$ 916,875</b>	<b>\$ 64,127</b>

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

**ROCK COUNTY  
LUVERNE, MINNESOTA**

***EXHIBIT A-5***

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2011

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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2009	\$ -	\$ 513,365	\$ 513,365	0.0%	\$ 3,800,699	13.5%

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**ROCK COUNTY  
LUVERNE, MINNESOTA**

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

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 is 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

There were no amendments to the expenditure budgets in the current year.

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Budget	Excess
General Fund	\$ 4,664,985	\$ 4,366,275	\$ 298,710
Special Revenue Funds			
Public Works	5,451,708	2,092,831	3,358,877
Land Management	571,444	528,239	43,205

5. Other Postemployment Benefits

Rock County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2009. Future reports will provide additional trend analysis to meet the three actuarial valuation data requirement as the information becomes available. See Note 4.C. to the financial statements for more information.

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**SUPPLEMENTARY INFORMATION**

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**ROCK COUNTY  
LUVERNE, MINNESOTA**

*EXHIBIT B-1*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 134,149	\$ 134,149	\$ 122,331	\$ (11,818)
Intergovernmental	4,871	4,871	14,639	9,768
<b>Total Revenues</b>	<b>\$ 139,020</b>	<b>\$ 139,020</b>	<b>\$ 136,970</b>	<b>\$ (2,050)</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 80,022	\$ 80,022	\$ 70,000	\$ 10,022
Interest	58,573	58,573	58,572	1
Administrative (fiscal) fees	425	425	425	-
<b>Total Expenditures</b>	<b>\$ 139,020</b>	<b>\$ 139,020</b>	<b>\$ 128,997</b>	<b>\$ 10,023</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,973</b>	<b>\$ 7,973</b>
<b>Fund Balance - January 1</b>	<b>147,949</b>	<b>147,949</b>	<b>147,949</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 147,949</b>	<b>\$ 147,949</b>	<b>\$ 155,922</b>	<b>\$ 7,973</b>

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**ROCK COUNTY  
LUVERNE, MINNESOTA**

AGENCY FUNDS

Rock Nobles Community Corrections - to account for the collection and disbursement of funds for Rock Nobles Community Corrections.

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  
LUVERNE, MINNESOTA**

*EXHIBIT C-1*

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>ROCK NOBLES COMMUNITY CORRECTIONS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 1,005,576	\$ 770,256	\$ 235,320
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 1,005,576	\$ 770,256	\$ 235,320
 <b><u>FAMILY SERVICES COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 129,242	\$ 82,459	\$ 123,657	\$ 88,044
<b><u>Liabilities</u></b>				
Accounts payable	\$ 129,242	\$ 82,459	\$ 123,657	\$ 88,044
 <b><u>SOCIAL WELFARE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 29,986	\$ 297,051	\$ 292,862	\$ 34,175
<b><u>Liabilities</u></b>				
Accounts payable	\$ 29,986	\$ 297,051	\$ 292,862	\$ 34,175

**ROCK COUNTY  
LIVERNE, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

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

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 104,650</u>	<u>\$ 7,519,002</u>	<u>\$ 7,481,550</u>	<u>\$ 142,102</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 104,650</u>	<u>\$ 7,519,002</u>	<u>\$ 7,481,550</u>	<u>\$ 142,102</u>
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 263,878</u>	<u>\$ 8,904,088</u>	<u>\$ 8,668,325</u>	<u>\$ 499,641</u>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 159,228	\$ 379,510	\$ 416,519	\$ 122,219
Due to other governments	<u>104,650</u>	<u>8,524,578</u>	<u>8,251,806</u>	<u>377,422</u>
<b>Total Liabilities</b>	<u><b>\$ 263,878</b></u>	<u><b>\$ 8,904,088</b></u>	<u><b>\$ 8,668,325</b></u>	<u><b>\$ 499,641</b></u>

## **OTHER SCHEDULES**

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**ROCK COUNTY  
LUVERNE, MINNESOTA**

*EXHIBIT D-1*

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

**Shared Revenue**

**State**

Highway users tax	\$	3,384,343
County program aid		157,388
PERA rate reimbursement		15,089
Disparity reduction aid		11,996
Police aid		66,521
Enhanced 911		88,638
Market value credit		231,482
Market value credit - mobile home		259
Market value credit - agriculture		88,320
		88,320

**Total shared revenue** **\$ 4,044,036**

**Reimbursement for Services**

Minnesota Department of Human Services **\$ 168,703**

**Payments**

**Local**

Payments in lieu of taxes	\$	65,139
Local		29,580
		29,580

**Total payments** **\$ 94,719**

**Grants**

**State**

Minnesota Department/Board of		
Human Services	\$	350,571
Natural Resources		23,846
Public Safety		49,035
Transportation		931,831
Water and Soil Resources		115,284
Veterans Affairs		8,000
Pollution Control Agency		55,950
		55,950

**Total state** **\$ 1,534,517**

**Federal**

Department of		
Agriculture	\$	70,332
Commerce		43,160
Health and Human Services		427,550
Transportation		308,899
Homeland Security		57,217
Election Assistance Commission		4,800
		4,800

**Total federal** **\$ 911,958**

**Total state and federal grants** **\$ 2,446,475**

**Total Intergovernmental Revenue** **\$ 6,753,933**

**ROCK COUNTY  
LUVERNE, MINNESOTA**

*EXHIBIT D-2*

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ <u>70,332</u>
<b>U.S. Department of Commerce</b>		
Passed Through Minnesota Department of Public Safety Public Safety Interoperable Communications Grant Program	11.555	\$ 24,433
Passed Through Southwest Minnesota Regional Radio Board Public Safety Interoperable Communications Grant Program	11.555	<u>18,727</u>
<b>Total U.S. Department of Commerce</b>		<b>\$ <u>43,160</u></b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 233,538
Formula Grants for Other Than Urbanized Areas	20.509	85,208
Passed Through City of Worthington Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	<u>4,984</u>
<b>Total U.S. Department of Transportation</b>		<b>\$ <u>323,730</u></b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families	93.558	\$ 31,532
Emergency Contingency Fund for Temporary Assistance for Needy Families State Program - ARRA	93.714	606
Child Support Enforcement	93.563	98,843
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	2,320
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1,952
Foster Care - Title IV-E	93.658	35,005
Social Services Block Grant	93.667	72,110
Chafee Foster Care Independence Program	93.674	900
Children's Health Insurance Program	93.767	4
Medical Assistance Program	93.778	<u>184,278</u>
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ <u>427,550</u></b>

**ROCK COUNTY  
LUVERNE, MINNESOTA**

**EXHIBIT D-2  
(Continued)**

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 21,950
Passed Through Murray County Homeland Security Grant Program	97.067	28,436
Passed Through Southwest Minnesota Regional Radio Board Interoperable Emergency Communications	97.055	2,110
Homeland Security Grant Program	97.067	<u>4,721</u>
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 57,217</b>
<b>Total Federal Awards</b>		<b>\$ 921,989</b>

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**ROCK COUNTY  
LIVERNE, MINNESOTA**

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

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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 accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Rock County under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Rock County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Rock County.

3. Summary of Significant Accounting Policies

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

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Temporary Assistance for Needy Families (TANF) Cluster	\$ 32,138
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**ROCK COUNTY  
LIVERNE, MINNESOTA**

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5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 911,958
Help America Vote Act Requirements Payments grant monies spent in previous years and not received until 2011 (CFDA #90.401)	(4,800)
Highway Planning and Construction grant monies expended in 2011 and not received until 2012 (CFDA #20.205)	<u>14,831</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 921,989</u>

6. Passed Through to Subrecipients

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

7. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

**ROCK COUNTY RURAL WATER DISTRICT**

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**ROCK COUNTY  
LUVERNE, MINNESOTA**

**EXHIBIT E-1**

**ROCK COUNTY RURAL WATER DISTRICT  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

**Assets**

Cash and pooled investments	\$ 595,288
Investments	1,098,098
Investments - restricted	1,175,000
Receivables - net	24,097
Receivables - restricted - net	404,362
Inventories	111,992
Prepaid items	6,863
Capital assets	
Non-depreciable capital assets	760,414
Depreciable capital assets - net of accumulated depreciation	3,407,192
	<hr/>
<b>Total Assets</b>	<b>\$ 7,583,306</b>

**Liabilities**

Accounts payable and other current liabilities	\$ 22,626
Accrued interest payable	5,472
Customer deposits	2,036
Long-term liabilities	
Due within one year	105,000
Due in more than one year	1,017,496
	<hr/>
<b>Total Liabilities</b>	<b>\$ 1,152,630</b>

**Net Assets**

Invested in capital assets - net of related debt	\$ 3,062,176
Unrestricted	3,368,500
	<hr/>
<b>Total Net Assets</b>	<b>\$ 6,430,676</b>

**ROCK COUNTY  
LIVERNE, MINNESOTA**

*EXHIBIT E-2*

**ROCK COUNTY RURAL WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>Operating Revenues</b>	
Charges for services	\$ 671,861
Miscellaneous	21,078
	<hr/>
<b>Total Operating Revenues</b>	<b>\$ 692,939</b>
<b>Operating Expenses</b>	
Personal services	\$ 230,265
Office expense	30,178
Operations	100,924
Materials	63,144
Utilities	68,196
Depreciation	195,350
	<hr/>
<b>Total Operating Expenses</b>	<b>\$ 688,057</b>
<b>Operating Income (Loss)</b>	<b>\$ 4,882</b>
<b>Nonoperating Revenues (Expenses)</b>	
Interest on non-restricted investments	\$ 40,571
Interest on restricted investments	16,559
Interest on long-term debt	(16,938)
Lewis and Clark expense	(6,314)
	<hr/>
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 33,878</b>
<b>Income (Loss) Before Contributions</b>	<b>\$ 38,760</b>
Capital contributions	68,712
	<hr/>
<b>Change in net assets</b>	<b>\$ 107,472</b>
<b>Net Assets - January 1</b>	<b>6,323,204</b>
	<hr/>
<b>Net Assets - December 31</b>	<b>\$ 6,430,676</b>
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**ROCK COUNTY  
LIVERNE, MINNESOTA**

**EXHIBIT E-3**

**ROCK COUNTY RURAL WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>Cash Flows from Operating Activities</b>	
Cash received from services	\$ 693,824
Cash paid to employees for services	(261,026)
Cash paid to suppliers for goods or services	<u>(266,024)</u>
<b>Net cash provided by (used in) operating activities</b>	<b><u>\$ 166,774</u></b>
<b>Cash Flows from Non-Capital Financing Activities</b>	
Lewis and Clark expenses	<u>\$ (6,314)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Payments of long-term debt	\$ (104,000)
Capital contributions/special assessments	127,811
Acquisition of capital assets	<u>(34,701)</u>
<b>Net cash provided by (used in) capital and related financing activities</b>	<b><u>\$ (10,890)</u></b>
<b>Cash Flows from Investing Activities</b>	
Interest on non-restricted investments	\$ 36,058
Interest on restricted investments	18,625
Interest on long-term debt	(18,068)
Sale or (Purchase) of restricted investments	289,107
Sale or (Purchase) of non-restricted investments	<u>(63,856)</u>
<b>Net cash provided by (used in) investing activities</b>	<b><u>\$ 261,866</u></b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>411,436</b>
<b>Cash and Cash Equivalents at January 1</b>	<b><u>183,852</u></b>
<b>Cash and Cash Equivalents at December 31</b>	<b><u><u>\$ 595,288</u></u></b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>	
<b>Operating income (loss)</b>	<b><u>\$ 4,882</u></b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation expense	\$ 195,350
(Increase) decrease in inventories	(4,515)
(Increase) decrease in accounts receivable	152
(Increase) decrease in prepaid expense	(4,518)
Increase (decrease) in accounts payable	4,932
Increase (decrease) in salaries payable and compensated absences	(31,545)
Increase (decrease) in customer deposits	<u>2,036</u>
<b>Total Adjustments</b>	<b><u>\$ 161,892</u></b>
<b>Net Cash Provided by (Used In) Operating Activities</b>	<b><u><u>\$ 166,774</u></u></b>

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**ROCK COUNTY  
LIVERNE, MINNESOTA**

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

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

**Financial Statements**

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

Highway Planning and Construction	CFDA #20.205
Social Services Block Grant	CFDA #93.667
Medical Assistance Program	CFDA #93.778

The threshold for distinguishing between Types A and B programs was \$300,000.

Rock County qualified as low-risk auditee? **No**

## 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

**Criteria:** A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

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

**Context:** Due to the limited number of office personnel within the County, segregation of the accounting functions 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 accounting point of view.

**Effect:** Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

**Cause:** The County does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

**Recommendation:** We recommend that the County's elected officials and management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are implemented by staff to the extent possible.

#### Client's Response:

*Rock County management is aware of the lack of segregation of duties that exist within the accounting functions due to limited staff and also the importance of the cross-training within these functions. Rock County will continue to find ways to implement and monitor internal controls and will also continue to work on cross-training of the accounting functions.*

### 06-3 Audit Adjustments

**Criteria:** A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis.

**Condition:** During our audit, we identified material adjustments that resulted in significant changes to the County's financial statements.

**Context:** The inability to make accrual adjustments or to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

**Effect:** Audit adjustments were necessary to reclassify intergovernmental revenue.

**Cause:** County staff misclassified a federal highway planning and construction grant as part of shared revenue for regular construction and misclassified a state grant as part of shared revenue.

**Recommendation:** We recommend County staff review the trial balances and journal entries in detail to ensure they have an understanding of all audit adjustments made. We also recommend that the County modify internal controls over financial reporting to detect misstatements, including misclassifications, in the financial statements.

#### Client's Response:

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

#### ITEMS ARISING THIS YEAR

### 11-1 Network/Application Password Controls

**Criteria:** County management is responsible for the County's internal controls over its information systems. This requires establishing security policies and performing assessments of existing controls to determine if the internal controls established are still effective or if changes are needed to ensure County data is protected as prescribed by management.

**Condition:** Rock County recently updated to a new version of the Integrated Financial System (IFS) application software. This application was written as a web-based application and may be run on a server or a mainframe system. Rock County contracts with another government for use of space on a mainframe IBM I Series system. For an employee of Rock County to access the new IFS application, the user must be signed on to the County network and have a current sign-on for the IFS application. The sign-on differs from the sign-on for the IBM I Series system, so the mainframe security settings do not apply to the application. Rock County has not reviewed the network controls or assessed risks from the change to a web-based application to ensure password controls are working as intended.

**Context:** The IFS application is the general ledger for Rock County. Detailed receipt and disbursement transactions as well as budget information are maintained on the IFS application throughout the year. This information is used by management to monitor the resources available and make decisions based on the available resources. At or near year-end, certain accrual information is also recorded in the application. The information maintained within the IFS application is the key source of information used for the preparation of the County's annual financial statements.

**Effect:** Normal password controls in place in the IBM I Series system are not effective for the IFS application, so a review of the IFS application controls and County network controls is imperative to ensure passwords are working as intended.

**Cause:** Rock County recently updated to a new web-based version of the IFS application software. County management was not aware of some of the password implications of this change.

**Recommendation:** We recommend Rock County management review password controls in place that limit access to the IFS application to ensure they are appropriate to protect the County data as prescribed by management.

Client's Response:

*Rock County will take the steps necessary to ensure that all users with IFS application access comply with a password policy.*

## 11-2 Bank Reconciliations

**Criteria:** Reconciliations are critical control activities which involve the comparison of two sets of related records or balances from different sources. Effective reconciliations identify differences between the records or balances. When differences are found, one should then investigate why the differences exist (such as timing differences or errors) and resolve the differences in a timely manner. Documentation resolving the differences should be retained.

**Condition:** The County did not complete timely reconciliations of bank statements. When we were on site in mid-February 2012, bank reconciliations were completed only through September 2011.

**Context:** Performing complete and timely bank reconciliations is a control designed to detect errors or irregularities in time to allow any bank errors be corrected.

**Effect:** Untimely reporting of encoding problems or other bank errors could result in a loss of County funds.

**Cause:** Due to a staff absence in the Auditor/Treasurer's Office from late 2011 through early 2012, no one completed bank reconciliations.

**Recommendation:** We recommend bank reconciliations be performed on a monthly basis. Any differences should immediately be investigated and resolved. Someone independent of the bank reconciliation process should review bank reconciliations and document the ongoing monitoring of this process.

Client's Response:

*Bank reconciliations are now prepared on a monthly basis allowing time for differences to be resolved. The Auditor-Treasurer reviews each bank reconciliation prepared by staff and monitors the progress of bank statement reconciling each month.*

11-3 New Vendors

**Criteria:** The ability to set up new vendors on the accounts payable system should be limited to those individuals with a logical need for this function. In addition, periodically, a report listing active vendors should be printed and reviewed by someone independent of the accounts payable system. That person should document the review by signing off on the report.

**Condition:** Rock County does not have any formal procedures for determining if new vendors have been added to the accounts payable system or if the new vendors added are legitimate vendors.

**Context:** When invoices are submitted for vendors that have not previously done business with the County, some procedures should be required to verify whether the vendor is legitimate. Procedures could include looking up the vendor in the phone book or on the internet or requiring the company to send information about its business.

**Effect:** Fictitious vendors could be added to the accounting system, increasing the likelihood of the County processing improper payments.

**Cause:** The County has not considered the need for verifying the legitimacy of vendors when adding new vendors to the accounting system.

**Recommendation:** We recommend that the County implement procedures to ensure all new vendors added to the accounting system are reviewed for legitimacy by someone other than the individual(s) responsible for adding new vendors.

Client's Response:

*Rock County has implemented procedures to verify the legitimacy of every new vendor. This is completed by someone other than the individual responsible for adding new vendors.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Monitoring Internal Controls (09-1)**

Our audit procedures detected areas and responsibilities performed by County staff with little or no monitoring by management or other staff members. Some areas with minimal or no monitoring included processing journal entries; calculating inventory balances; and reviewing capital asset additions, deletions, and balances.

**Resolution**

We noted improvement in the areas of journal entries and reviewing capital asset additions, deletions, and balances. We expect the County to continue to make improvements over calculating inventory balances.

**Preparation of the Schedule of Expenditures of Federal Awards (09-5)**

In 2010, Rock County did not prepare a Schedule of Expenditures of Federal Awards, nor did it adequately identify federal programs by amount received and expended, federal grantor agency, pass-through agency, and Catalog of Federal Domestic Assistance (CFDA) title and number as required under OMB Circular A-133.

**Resolution**

For the 2011 audit, Rock County provided a Schedule of Expenditures of Federal Awards which identified federal programs by amount received and expended, federal grantor agency, pass-through agency, and CFDA title and number as required under OMB Circular A-133.



### **Preparation of Financial Statements (10-1)**

In 2010, Rock County relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process.

### **Resolution**

For the 2011 audit, Rock County prepared the basic financial statements, including the notes to the financial statements.

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

### ITEMS ARISING THIS YEAR

#### 11-4 Eligibility Testing

**Program:** Medical Assistance (MA) (CFDA No. 93.778)

**Criteria:** OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

**Condition:** The state maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While periodic supervisory case reviews are performed to provide reasonable assurance of compliance with grant requirements for eligibility, not all documentation was available to support participant eligibility. In other circumstances, information was input into MAXIS incorrectly. The following instances were noted in our sample of 40 cases tested:

- Three cases did not have verification of asset requirements. In all three instances, amounts reported for an individual's checking and savings balances were not accurately updated in MAXIS to equal amounts shown with the statements provided with the application.
- Two cases did not have verification of income. In both instances, the amounts reported for an individual's income were not accurately updated in MAXIS to amounts shown on the timesheets provided with the application.

**Questioned Costs:** Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

**Context:** The State of Minnesota contracts with the County to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility) while the state maintains the computer systems supporting the eligibility determination process and actually pays the benefits to participants.

**Effect:** The improper input of information into MAXIS and lack of follow-up of issues increases the risk that a client will receive benefits when they are not eligible.

**Cause:** Program personnel entering case documentation did not ensure all required documents were obtained and/or retained.

**Recommendation:** We recommend that the County implement review procedures to provide reasonable assurance that all necessary documentation to support an eligibility determination is obtained. In addition, consideration should be given to providing additional training to program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Diane Holmberg and Kathryn Herding*

Corrective Action Planned:

*Case reviews specific to Medical Assistance program actions will be completed monthly.*

Anticipated Completion Date:

*June 1, 2012*

11-5 Identification of Federal Awards

**Programs:** Highway Planning and Construction (CFDA No. 20.205)

**Criteria:** OMB Circular A-133, Subpart C, § .300, indicates auditee responsibilities include the identification of all federal awards received and expended and the federal programs under which they were received and preparation of the Schedule of Expenditures of Federal Awards (SEFA).

**Condition:** The County did not adequately identify amounts received and expended for a federal award on the SEFA. The County provided a SEFA reporting total federal expenditures for 2011 of \$688,451, while the SEFA after audit adjustments showed total expenditures of \$921,989, resulting in a difference of \$233,538. The \$233,538 was the amount of expenditures for the Highway Planning and Construction (CFDA No. 20.205) program, mistakenly recorded and classified by County personnel as part of state monies rather than federal.

**Questioned Costs:** None.

**Context:** In 2011, the County expended \$921,989 in federal awards; the net overstatement of federal expenditures due to improper classification and misidentification of federal awards on the SEFA provided by the County was \$233,538.

**Effect:** The inability to identify and track federal expenditures or to detect significant misstatements in the SEFA increases the likelihood that the federal expenditures would not be fairly reported.

**Cause:** The County did not classify highway planning and construction monies as part of federal grants when the monies were receipted into the County's financial system. The County's procedures in place to identify, classify, and track federal awards for reporting on the SEFA or in the financial statements did not include a review for appropriateness.

**Recommendation:** We recommend County management modify existing procedures to allow staff to correctly identify and classify all federal assistance received and expended. Procedures should include a review of the determination of federal and state classifications of grant awards to help determine whether or not expenditures should be considered federal.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Ashley Kurtz & Lana Henrichs*

Corrective Action Planned:

*Highway Accountant will provide Auditor-Treasurer with a copy of each payment request which specifies what type of money is going to be received (State or Federal).*

*Auditor-Treasurer's office will continue to prepare the Schedule of Expenditures of Federal Awards and will then review it with the Highway Accountant to ensure that all grant money is classified correctly.*

Anticipated Completion Date:

*September 28, 2012*

#### **IV. OTHER FINDINGS AND RECOMMENDATIONS**

##### **A. MINNESOTA LEGAL COMPLIANCE**

##### **ITEM ARISING THIS YEAR**

##### **11-6 Insufficient Collateral**

**Criteria:** Governmental entities are required by Minn. Stat. § 118A.03 to obtain collateral to secure deposits to the extent that funds on deposit exceed available federal deposit insurance at the close of the financial institution's banking day. The market value of the collateral should be at least ten percent more than the uninsured and unbonded amount on deposit.

**Condition:** The County had deposits at Exchange State Bank that were not adequately covered by collateral.

**Context:** The amount of collateral required to secure deposits at Exchange State Bank at December 31, 2011, was \$361,222 more than the amount of collateral pledged.

**Effect:** The County's deposits were at risk as the County would not have been able to recover the portion of funds for which there was insufficient collateral.

**Cause:** The County did not notice the pledge securities held at Exchange State Bank were not enough to secure the deposits held.

**Recommendation:** We recommend the County monitor all County deposits to determine there is adequate collateral pledged to secure deposits in accordance with Minn. Stat. § 118A.03.

Client's Response:

*Auditor-Treasurer will continue to monitor collateral at all times, ensuring there is adequate coverage.*

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM RESOLVED

**Tax Identification Number (06-16)**

The Buffalo Ridge Rail Authority was using the County's tax identification number on its bank account even though the organization is not part of the County.

**Resolution**

In 2011, the Buffalo Ridge Rail Authority obtained its own tax identification number and contacted the bank to change the tax identification number on the account.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

Management of Rock County is responsible for establishing and maintaining effective 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 05-1, 06-3, and 11-1 through 11-3, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### 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 Political Subdivisions*, 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 Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because the County does not have any tax increment financing districts of its own.

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 11-6.

Rock County's written responses to the internal control and legal compliance 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 Rock 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

September 24, 2012

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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

Board of County Commissioners  
Rock County

#### Compliance

We have audited Rock County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. 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 could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

### Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 11-4 and 11-5. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Rock County's corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plans and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management and 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

September 24, 2012

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR