

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

ROCK COUNTY
LIVERNE, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2010

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, 2010



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

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**ROCK COUNTY
LUVERNE, MINNESOTA**

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**ROCK COUNTY
LIVERNE, MINNESOTA**

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**ROCK COUNTY
LIVERNE, MINNESOTA**

ORGANIZATION SCHEDULE
2010

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1st District	Kenneth Hoime	January 2013
2nd District	Richard Bakken	January 2011
3rd District	Ronald Boyenga	January 2013
4th District	Robert Jarchow**	January 2011
5th District	Jane Wildung Lanphere*	January 2013
Officers		
Elected		
Attorney	Donald R. Klosterbuer	January 2011
Sheriff	Evan Verbrugge	January 2011
Appointed		
Administrator	Kyle J. Oldre	Indefinite
Auditor/Treasurer	Gloria F. Rolfs	Indefinite
Family Services Director	Randy Ehlers	Indefinite
Highway Engineer	Mark Sehr	Indefinite
Land Records Director	Thomas Houselog	Indefinite

*Chair 2010

**Chair 2011

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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, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Rock County Rural Water District, the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to amounts included for the component unit, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the 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, 2010, 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.

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 Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 taken as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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 stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2011, on our consideration of Rock County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 19, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**ROCK COUNTY
LIVERNE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(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, 2010. 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 \$52,063,391, of which \$45,141,397 is invested in capital assets, net of related debt, and \$1,383,928 is restricted to specific purposes. The \$5,538,066 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net assets increased by \$1,159,355 for the year ended December 31, 2010. 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 \$3,623,254. General revenues and other items totaling \$4,782,609 funded the net cost.
- At the close of 2010, Rock County's combined ending governmental fund balances totaled \$7,111,474, an increase of \$843,166 from 2009. Of this balance, \$761,324 was unreserved and undesignated by Rock County and thus available for spending at the government's discretion.
- For the year ended December 31, 2010, the unreserved balance of the General Fund was \$3,222,785, or 69.7 percent, of the total General Fund expenditures for that year. This represents an increase from 2009, which had 61.8 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. The Rock County Rural Water District has separately issued financial statements.

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28 through 68 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 \$52,063,391 at the close of 2010. The largest portion of Rock County's net assets (86.7 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	
	2010	2009
Assets		
Current and other assets	\$ 9,329,012	\$ 9,051,606
Capital assets	46,771,681	45,638,368
Total Assets	\$ 56,100,693	\$ 54,689,974
Liabilities		
Long-term liabilities	\$ 2,963,392	\$ 2,297,702
Current liabilities	1,073,910	1,488,236
Total Liabilities	\$ 4,037,302	\$ 3,785,938
Net Assets		
Invested in capital assets, net of related debt	\$ 45,141,397	\$ 43,899,830
Restricted	1,383,928	1,074,341
Unrestricted	5,538,066	5,929,865
Total Net Assets	\$ 52,063,391	\$ 50,904,036

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 10.6 percent of the net assets.

Governmental Activities

The County's governmental activities increased net assets by 2.2 percent (\$52,063,391 for 2010 compared to \$50,904,036 for 2009). Key elements in this increase in net assets are as follows:

Changes in Net Assets

	Governmental Activities	
	2010	2009
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 2,293,323	\$ 2,241,321
Operating grants and contributions	5,020,453	4,989,316
Capital grants and contributions	898,497	4,658,777
General revenues		
Property taxes	3,780,512	3,388,840
Unrestricted state aid	698,825	1,224,470
Investment earnings	112,296	134,835
Other	190,976	131,449
Total Revenues	\$ 12,994,882	\$ 16,769,008

	Governmental Activities	
	2010	2009
Expenses		
General government	\$ 2,390,841	\$ 2,217,417
Public safety	1,855,809	1,898,978
Highways and streets	3,180,265	3,777,124
Sanitation	685,600	605,828
Human services	2,463,667	2,600,330
Health	117,880	164,976
Culture and recreation	364,038	390,815
Conservation of natural resources	695,865	392,239
Economic development	500	1,400
Interest	81,062	72,878
Total Expenses	<u>\$ 11,835,527</u>	<u>\$ 12,121,985</u>
Change in Net Assets	\$ 1,159,355	\$ 4,647,023
Net Assets - January 1	<u>50,904,036</u>	<u>46,257,013</u>
Net Assets - December 31	<u>\$ 52,063,391</u>	<u>\$ 50,904,036</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 \$7,111,474, an increase of \$843,166 in comparison with the prior year. Of the combined ending fund balances, \$5,915,760 represents unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law, grant agreements, or bond covenants.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unreserved fund balance of \$3,222,785. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund's unreserved fund balance represents 69.7 percent of total General Fund expenditures. During 2010, the fund balance increased by \$133,935. The primary reasons for this increase were due to greater than anticipated revenues and less than budgeted expenditures.

The Public Works Special Revenue Fund had an unreserved fund balance of \$676,826 at fiscal year-end, representing 13.7 percent of its annual expenditures. The ending unreserved fund balance increased \$76,532 during 2010.

The Family Services Special Revenue Fund had an unreserved fund balance of \$994,287 at fiscal year-end, representing 40.0 percent of its annual expenditures. The ending unreserved fund balance increased \$18,754 during 2010.

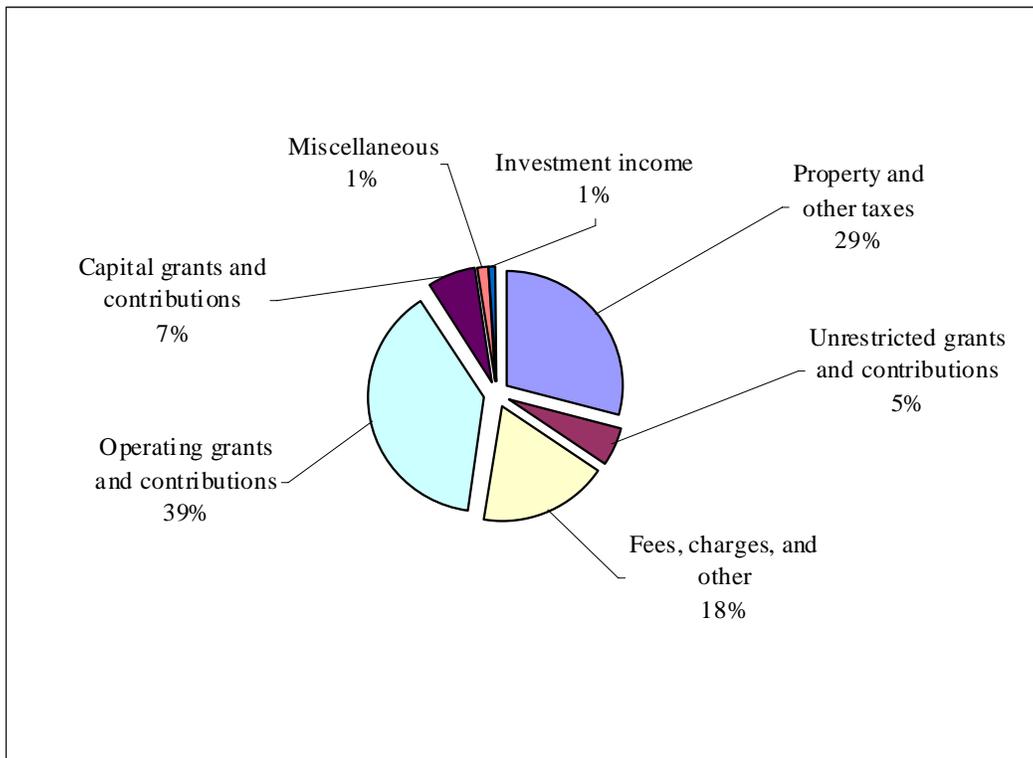
The Land Management Special Revenue Fund had an unreserved fund balance of \$867,059 at fiscal year-end. The ending unreserved fund balance increased \$22,440 during 2010.

The Ditch Special Revenue Fund had an unreserved fund balance of \$6,854 at fiscal year-end. The ending unreserved fund balance increased \$4,452 during 2010.

Governmental Activities

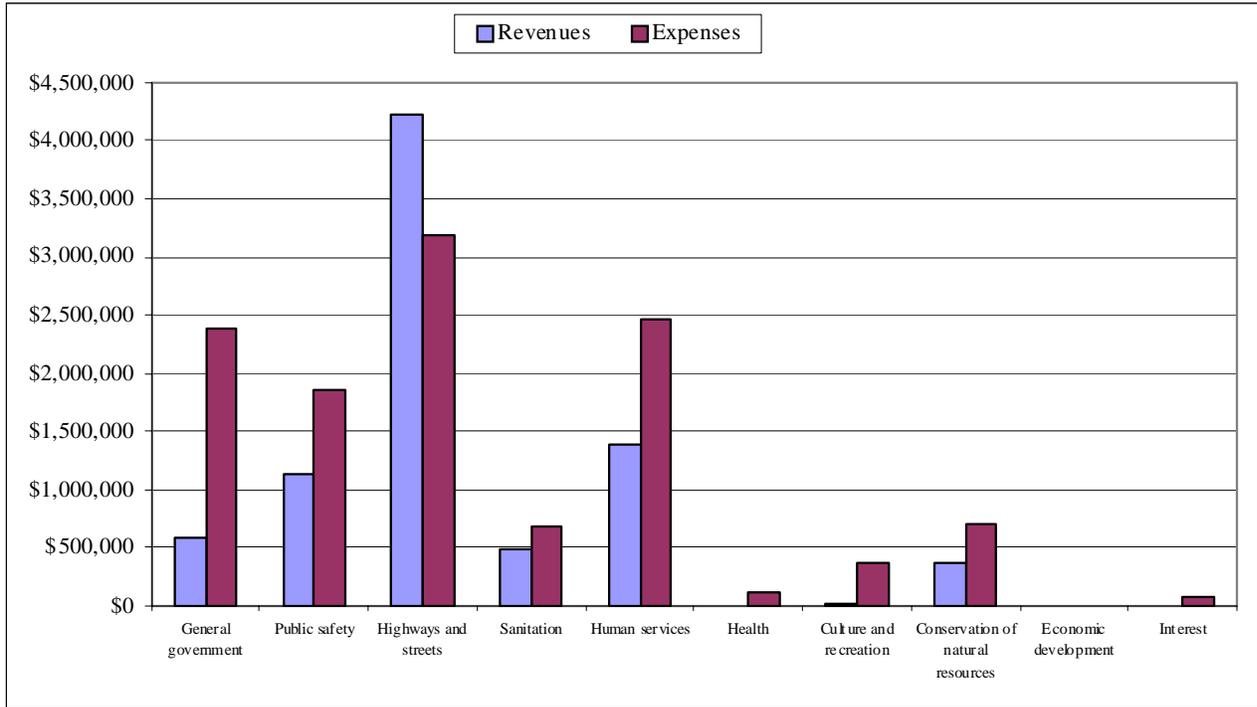
The County's total revenues were \$12,994,882. The following table presents the percent of total County revenues by source for the year ended December 31, 2010.

Total County Revenues



The next chart presents the cost and revenue of each program as well as the County’s program revenues. Total revenues for the County were \$12,994,882, while total expenses were \$11,835,527. This reflects a \$1,159,355 increase in net assets for the year ended December 31, 2010.

Program Revenues and Expenses



The cost of all governmental activities this year was \$11,835,527. However, as shown on the Statement of Activities on Exhibit 2, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$3,780,512 because some of the costs were paid by those who directly benefited from the programs (\$2,293,323) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,918,950). The County paid for the remaining “public benefit” portion of governmental activities with \$4,782,609 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.

Governmental Activities				
	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
Highways and streets	\$ 3,180,265	\$ 3,777,124	\$ (1,043,698)	\$ (1,652,027)
Human services	2,463,667	2,600,330	1,070,364	1,158,676
General government	2,390,841	2,217,417	1,798,909	(869,117)
Public safety	1,855,809	1,898,978	722,466	804,889
All others	1,944,945	1,628,136	1,075,213	790,150
Totals	\$ 11,835,527	\$ 12,121,985	\$ 3,623,254	\$ 232,571

General Fund Budgetary Highlights

Over the course of the year, the County Board made changes to revise the General Fund budget.

Actual General Fund revenues exceeded final budgeted revenues by \$183,311, 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, 2010, totaled \$46,771,681 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$1,133,313, or 2.5 percent, from the previous year. The major capital asset events were:

Infrastructure	\$ 2,555,407
Construction in progress	645,884

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

	2010	2009
Land	\$ 1,179,782	\$ 1,179,782
Construction in progress	645,884	731,484
Works of art and historical treasures	600,000	600,000
Infrastructure	33,381,584	31,738,671
Buildings	8,267,842	8,456,070
Land improvements	208,202	219,307
Machinery, equipment, and vehicles	2,488,387	2,713,054
Total	\$ 46,771,681	\$ 45,638,368

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 \$2,963,392, which was backed by the full faith and credit of the government.

Outstanding Debt

	2010	2009
General obligation bonds	\$ 2,226,547	\$ 1,550,754
Capital leases	125,284	163,538
Loans payable	46,702	-
Compensated absences payable	509,610	538,513
Net OPEB obligation	55,249	44,897
Total	\$ 2,963,392	\$ 2,297,702

The County's debt related to general obligation bonds increased by \$675,793 (43.6 percent) during the fiscal year due to issuance of a General Obligation Ditch Bond.

Minnesota statutes limit the amount of debt a county may levy to three percent of its total market value. At the end of 2010, the County's outstanding debt was 0.18 percent of its total estimated market value of \$1,646,366,800.

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 2010 was 5.2 percent. This compares favorably with the state unemployment rate of 7.3 percent. The 2010 population is estimated at 9,687, a decrease of 34 from the 2000 census of 9,721.
- On December 28, 2010, the Rock County Board of Commissioners approved the 2011 budget and adopted a property tax levy of \$4,485,575, which represents a 7.6 percent increase over the 2009 property tax levy of \$4,170,151.

Rock County Tax Rate and Levy History

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, 2010**

	Primary Government Governmental Activities	Rock County Rural Water District Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 5,020,159	\$ 183,852
Investments	2,588,500	1,034,242
Investments - restricted	-	1,464,107
Receivables - net	1,543,319	22,178
Receivables - restricted	-	460,975
Inventories	126,738	107,477
Prepaid items	18,128	2,345
Deferred debt issuance costs	32,168	-
Capital assets		
Non-depreciable capital assets	2,425,666	772,062
Depreciable capital assets - net of accumulated depreciation	44,346,015	3,558,849
Total Assets	\$ 56,100,693	\$ 7,606,087
<u>Liabilities</u>		
Accounts payable and other current liabilities	\$ 943,341	\$ 67,281
Accrued interest payable	34,769	6,602
Customer deposits	8,000	-
Unearned revenue	87,800	-
Long-term liabilities		
Due within one year	160,306	104,000
Due in more than one year	2,803,086	1,105,000
Total Liabilities	\$ 4,037,302	\$ 1,282,883
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 45,141,397	\$ 3,115,309
Restricted for		
Public safety	180,946	-
Highways and streets	929,914	-
Debt service	128,817	-
Other purposes	144,251	-
Unrestricted	5,538,066	3,207,895
Total Net Assets	\$ 52,063,391	\$ 6,323,204

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

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**ROCK COUNTY
LIVERNE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 2,390,841	\$ 472,278
Public safety	1,855,809	908,866
Highways and streets	3,180,265	70,707
Sanitation	685,600	430,598
Human services	2,463,667	187,915
Health	117,880	-
Culture and recreation	364,038	7,559
Conservation of natural resources	695,865	215,400
Economic development	500	-
Interest	81,062	-
	\$ 11,835,527	\$ 2,293,323
Total Governmental Activities	\$ 11,835,527	\$ 2,293,323
 Component Unit		
Rock County Rural Water District	\$ 681,757	\$ 629,545
 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>
\$ 119,654	\$ -	\$ (1,798,909)	
224,477	-	(722,466)	
3,254,759	898,497	1,043,698	
64,648	-	(190,354)	
1,205,388	-	(1,070,364)	
-	-	(117,880)	
6,129	-	(350,350)	
145,398	-	(335,067)	
-	-	(500)	
-	-	(81,062)	
<u>\$ 5,020,453</u>	<u>\$ 898,497</u>	<u>\$ (3,623,254)</u>	
<u>\$ -</u>	<u>\$ 119,939</u>		<u>\$ 67,727</u>
		\$ 3,780,512	\$ -
		18,971	-
		12,710	-
		41,142	-
		698,825	-
		112,296	39,183
		118,153	-
		<u>\$ 4,782,609</u>	<u>\$ 39,183</u>
		\$ 1,159,355	\$ 106,910
		<u>50,904,036</u>	<u>6,216,294</u>
		<u>\$ 52,063,391</u>	<u>\$ 6,323,204</u>

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**ROCK COUNTY
LUVERNE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	General	Public Works
<u>Assets</u>		
Cash and pooled investments	\$ 2,104,890	\$ 445,686
Petty cash and change funds	1,475	75
Investments	1,720,500	860,000
Taxes receivable		
Prior	15,309	4,169
Special assessments receivable		
Prior	-	-
Accounts receivable	22,638	4,136
Accrued interest receivable	19,730	5,615
Loans receivable	-	-
Due from other funds	-	-
Due from other governments	23,347	1,108,446
Inventories	-	126,738
Prepaid items	13,821	-
	\$ 3,921,710	\$ 2,554,865
Total Assets	\$ 3,921,710	\$ 2,554,865

EXHIBIT 3

<u>Family Services</u>	<u>Land Management</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ 939,523	\$ 1,003,032	\$ 377,529	\$ 147,949	\$ 5,018,609
-	-	-	-	1,550
-	8,000	-	-	2,588,500
6,498	148	-	783	26,907
-	10,020	-	-	10,020
76,204	-	-	-	102,978
-	16	-	-	25,361
-	76,702	-	-	76,702
4,110	-	-	-	4,110
169,558	-	-	-	1,301,351
-	-	-	-	126,738
4,307	-	-	-	18,128
<u>\$ 1,200,200</u>	<u>\$ 1,097,918</u>	<u>\$ 377,529</u>	<u>\$ 148,732</u>	<u>\$ 9,300,954</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	General	Public Works
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 117,512	\$ 87,005
Salaries payable	88,042	38,837
Contracts payable	-	274,845
Due to other funds	4,110	-
Due to other governments	80,487	637
Deferred revenue - unavailable	23,235	1,105,529
Deferred revenue - unearned	-	-
Customer deposits	-	-
	\$ 313,386	\$ 1,506,853
Fund Balances		
Reserved for		
Inventories	\$ -	\$ 126,738
Loans receivable	-	-
Prepaid items	13,821	-
Missing heirs	3,549	-
Law library	9,451	-
Recorder's technology fund	75,937	-
Recorder's compliance fund	55,314	-
Enhanced 911	141,266	-
Sheriff's contingency	3,984	-
Sheriff's forfeited property	21,547	-
Regional dispatch	14,149	-
Transportation	46,521	-
Unspent bond proceeds	-	-
Highway allotments	-	244,448
Unreserved		
Designated for cash flows	1,691,872	528,954
Designated for compensated absences	232,902	147,872
Designated for capital improvements	1,281,337	-
Designated for elections	16,674	-
Undesignated	-	-
	\$ 3,608,324	\$ 1,048,012
Total Fund Balances	\$ 3,608,324	\$ 1,048,012
Total Liabilities and Fund Balances	\$ 3,921,710	\$ 2,554,865

EXHIBIT 3
(Continued)

<u>Family Services</u>	<u>Land Management</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ 103,199	\$ 28,876	\$ 12,695	\$ -	\$ 349,287
40,094	11,997	-	-	178,970
-	-	-	-	274,845
-	-	-	-	4,110
51,815	7,300	-	-	140,239
6,498	10,184	-	783	1,146,229
-	87,800	-	-	87,800
-	8,000	-	-	8,000
\$ 201,606	\$ 154,157	\$ 12,695	\$ 783	\$ 2,189,480
\$ -	\$ -	\$ -	\$ -	\$ 126,738
-	76,702	-	-	76,702
4,307	-	-	-	18,128
-	-	-	-	3,549
-	-	-	-	9,451
-	-	-	-	75,937
-	-	-	-	55,314
-	-	-	-	141,266
-	-	-	-	3,984
-	-	-	-	21,547
-	-	-	-	14,149
-	-	-	-	46,521
-	-	357,980	-	357,980
-	-	-	-	244,448
882,802	243,187	-	-	3,346,815
111,485	17,351	-	-	509,610
-	-	-	-	1,281,337
-	-	-	-	16,674
-	606,521	6,854	147,949	761,324
\$ 998,594	\$ 943,761	\$ 364,834	\$ 147,949	\$ 7,111,474
\$ 1,200,200	\$ 1,097,918	\$ 377,529	\$ 148,732	\$ 9,300,954

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**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

Fund balance - total governmental funds (Exhibit 3)	\$	7,111,474
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.		46,771,681
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,146,229
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (2,255,000)	
Unamortized bond discount	28,453	
Deferred debt issuance costs	32,168	
Capital leases payable	(125,284)	
Loans payable	(46,702)	
Compensated absences	(509,610)	
Net OPEB obligation	(55,249)	
Accrued interest payable	(34,769)	
	(2,965,993)	(2,965,993)
Net Assets of Governmental Activities (Exhibit 1)	\$	<u>52,063,391</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	General	Public Works
Revenues		
Taxes	\$ 2,169,586	\$ 578,313
Special assessments	-	-
Licenses and permits	1,445	-
Intergovernmental	961,067	4,229,127
Charges for services	1,249,160	454,685
Fines and forfeits	17,847	-
Gifts and contributions	2,539	-
Investment earnings	93,797	19,325
Miscellaneous	207,333	34,882
	\$ 4,702,774	\$ 5,316,332
Expenditures		
Current		
General government	\$ 2,156,312	\$ -
Public safety	1,772,769	-
Highways and streets	-	4,369,852
Sanitation	-	347,578
Human services	-	-
Health	1,800	-
Culture and recreation	327,241	-
Conservation of natural resources	142,450	-
Economic development	500	-
Intergovernmental	176,926	232,763
Debt service		
Principal	38,254	-
Interest	7,277	-
Administrative (fiscal) charges	-	-
Bond issuance costs	-	-
	\$ 4,623,529	\$ 4,950,193
Excess of Revenues Over (Under) Expenditures	\$ 79,245	\$ 366,139

EXHIBIT 5

Family Services	Land Management	Ditch	Debt Service	Total
\$ 933,156	\$ 21,365	\$ -	\$ 110,470	\$ 3,812,890
-	208,109	-	-	208,109
-	31,298	-	-	32,743
1,379,290	213,894	-	20,079	6,803,457
52,937	1,868	-	-	1,758,650
-	-	-	-	17,847
-	-	-	-	2,539
-	1,743	162	-	115,027
134,978	16,790	-	-	393,983
\$ 2,500,361	\$ 495,067	\$ 162	\$ 130,549	\$ 13,145,245
\$ -	\$ 35,634	\$ -	\$ -	\$ 2,191,946
-	-	-	-	1,772,769
-	-	-	-	4,369,852
-	302,356	-	-	649,934
2,483,050	-	-	-	2,483,050
-	-	-	-	1,800
-	-	-	-	327,241
-	179,637	373,455	-	695,542
-	-	-	-	500
-	-	-	-	409,689
-	-	-	70,000	108,254
-	-	-	60,917	68,194
-	-	-	425	425
-	-	17,900	-	17,900
\$ 2,483,050	\$ 517,627	\$ 391,355	\$ 131,342	\$ 13,097,096
\$ 17,311	\$ (22,560)	\$ (391,193)	\$ (793)	\$ 48,149

**ROCK COUNTY
LIVERNE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	General	Public Works
Other Financing Sources (Uses)		
Transfers in	\$ 60,000	\$ -
Transfers out	(10,000)	(60,000)
Proceeds from loan collections	40	-
Proceeds from the sale of bonds	-	-
Discount on bonds issued	-	-
Loans issued	-	-
Proceeds from the sale of assets	4,650	-
	\$ 54,690	\$ (60,000)
Net Change in Fund Balance	\$ 133,935	\$ 306,139
Fund Balance - January 1, as restated (Note 1.D.12.)	3,474,389	750,529
Increase (decrease) in reserved for inventories	-	(8,656)
Fund Balance - December 31	\$ 3,608,324	\$ 1,048,012

EXHIBIT 5
(Continued)

Family Services	Land Management	Ditch	Debt Service	Total
\$ -	\$ -	\$ 10,000	\$ -	\$ 70,000
-	-	-	-	(70,000)
-	-	-	-	40
-	-	750,000	-	750,000
-	-	(6,375)	-	(6,375)
-	46,702	-	-	46,702
-	-	-	-	4,650
\$ -	\$ 46,702	\$ 753,625	\$ -	\$ 795,017
\$ 17,311	\$ 24,142	\$ 362,432	\$ (793)	\$ 843,166
981,283	919,619	2,402	148,742	6,276,964
-	-	-	-	(8,656)
\$ 998,594	\$ 943,761	\$ 364,834	\$ 147,949	\$ 7,111,474

**ROCK COUNTY
LUCERNE, 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, 2010**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 843,166

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	\$ 1,146,229	
Deferred revenue - January 1	<u>(1,296,632)</u>	(150,403)

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	\$ 2,547,723	
Current year depreciation	<u>(1,414,410)</u>	1,133,313

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>38,254</u>	108,254

Debt issued		
Bond principal	\$ (750,000)	
Bond issuance costs	17,900	
Bond discount	<u>6,375</u>	(725,725)

Loans issued		(46,702)
--------------	--	----------

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	\$ 28,903	
Change in net OPEB obligation	(10,352)	
Change in accrued interest payable	(7,402)	
Discount and bond issuance costs amortization	(5,041)	
Change in inventories	<u>(8,656)</u>	<u>(2,548)</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 1,159,355

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

FIDUCIARY FUNDS

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**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2010**

<u>Assets</u>	
Cash and pooled investments	<u>\$ 263,878</u>
 <u>Liabilities</u>	
Accounts payable	\$ 159,228
Due to other governments	<u>104,650</u>
Total Liabilities	<u>\$ 263,878</u>

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**ROCK COUNTY
LIVERNE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

Component Unit

While part of the reporting entity, discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. The Rock County Rural Water District is included in the County's reporting entity because of the significance of its operational and financial relationship with the County. The Rock County Board of Commissioners appoints the members of the Rural Water District Board, and the District has the potential to be a financial burden or benefit to the County. The Rock County Rural

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Component Unit (Continued)

Water District was established in 1978 to provide water to rural residents of Rock County. Financial statements of the Rock County Rural Water District can be obtained at 541 - 150th Avenue, Luverne, Minnesota 56156.

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity;

**ROCK COUNTY
LIVERNE, MINNESOTA**

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 required to be accounted for in another fund.

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

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

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Rock County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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, 2010, 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 2010 were \$54,625 for the County.

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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 the Public Works Special Revenue Fund are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

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

5. Restricted Assets

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

6. Capital Assets

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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

7. Compensated Absences

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

10. Fund Equity

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Use of Estimates

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

12. Restatement of Prior Year Fund Balance

The County closed the Capital Projects Fund and moved the remaining fund balance into the General Fund.

General Fund		
Fund Balance - January 1, as previously reported	\$	3,260,957
Restatement		213,432
Fund Balance - January 1, as restated	\$	3,474,389

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

Expenditures exceeded budgets in the following funds:

Fund	Expenditures	Budget	Excess
General Fund	\$ 4,623,529	\$ 4,465,783	\$ 157,746
Special Revenue Funds			
Public Works	4,950,193	2,092,831	2,857,362
Land Management	517,627	505,923	11,704

**ROCK COUNTY
LUVERNE, MINNESOTA**

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	\$ 5,020,159
Investments	2,588,500
Fiduciary net assets	
Cash and pooled investments	<u>263,878</u>
Total Cash and Investments	<u>\$ 7,872,537</u>
Petty cash and change funds	\$ 1,550
Checking	4,834,106
Money market savings	118,395
Certificates of deposit	2,588,500
Cash on hand	300,000
Social Welfare Fund checking account	<u>29,986</u>
Total Deposits and Investments	<u>\$ 7,872,537</u>

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.

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better and revenue obligations rated “AA” or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution 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, 2010, the County’s deposits in banks were entirely covered by federal depository insurance or by collateral in accordance with Minnesota statutes.

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;

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County 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.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31 2010, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. 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.

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2010, 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	\$ 26,907	\$ -
Special assessments	10,020	-
Accounts	102,978	-
Loans receivable	76,702	66,789
Interest	25,361	-
Due from other governments	1,301,351	-
Total Governmental Activities	\$ 1,543,319	\$ 66,789

3. Loans Receivable

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

Luverne Optimist Hockey Club	\$ 1,000
Rock County Opportunities, Inc.	75,000
Loans receivable, January 1, 2010	\$ 76,000
New loans issued during the year - MPCA	46,702
Payments received during the year	(46,000)
Loans Receivable	\$ 76,702

The Land Management Special Revenue Fund has a \$30,000 loan receivable from Rock County Opportunities, Inc., from a loan made in 2008 and \$46,702 loans receivable from septic loans issued in 2010.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 193,861	\$ -	\$ -	\$ 193,861
Right-of-way	985,921	-	-	985,921
Construction in progress	731,484	645,884	731,484	645,884
Works of art and historical treasures	600,000	-	-	600,000
Total capital assets not depreciated	<u>\$ 2,511,266</u>	<u>\$ 645,884</u>	<u>\$ 731,484</u>	<u>\$ 2,425,666</u>
Capital assets depreciated				
Buildings	\$ 10,256,698	\$ -	\$ -	\$ 10,256,698
Land improvements	242,912	-	-	242,912
Machinery, furniture, and equipment	5,626,359	77,916	7,370	5,696,905
Infrastructure	43,069,306	2,555,407	-	45,624,713
Total capital assets depreciated	<u>\$ 59,195,275</u>	<u>\$ 2,633,323</u>	<u>\$ 7,370</u>	<u>\$ 61,821,228</u>
Less: accumulated depreciation for				
Buildings	\$ 1,800,628	\$ 188,228	\$ -	\$ 1,988,856
Land improvements	23,605	11,105	-	34,710
Machinery, furniture, and equipment	2,913,305	302,583	7,370	3,208,518
Infrastructure	11,330,635	912,494	-	12,243,129
Total accumulated depreciation	<u>\$ 16,068,173</u>	<u>\$ 1,414,410</u>	<u>\$ 7,370</u>	<u>\$ 17,475,213</u>
Total capital assets depreciated, net	<u>\$ 43,127,102</u>	<u>\$ 1,218,913</u>	<u>\$ -</u>	<u>\$ 44,346,015</u>
Capital Assets, Net	<u>\$ 45,638,368</u>	<u>\$ 1,864,797</u>	<u>\$ 731,484</u>	<u>\$ 46,771,681</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

4. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	233,863
Culture and recreation		36,104
Public safety		49,287
Highways and streets (including infrastructure)		1,057,789
Sanitation		35,666
Human services		1,701
Total Depreciation Expense - Governmental Activities	\$	1,414,410

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2010, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
Family Services	General	\$ 4,110

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2010, consisted of the following:

Transfer to General Fund from Public Works Special Revenue Fund	\$ 60,000	Provide funding
Transfer to Ditch Special Revenue Fund from General Fund	10,000	Provide funding
Total Interfund Transfers	\$ 70,000	

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2010, were as follows:

	Primary Government
Accounts	\$ 349,287
Salaries	178,970
Contracts	274,845
Due to other governments	140,239
Total Payables	\$ 943,341

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, 2010:

Capital Lease	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amounts	Outstanding Balance December 31, 2010
HVAC system	2013	\$45,382	4.45	\$ 361,168	\$ 125,284

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 \$204,379.

**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, 2010, were as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2011	\$ 45,532
2012	45,532
2013	<u>45,532</u>
Total minimum lease payments	\$ 136,596
Less: amount representing interest	<u>(11,312)</u>
Present Value of Future Minimum Lease Payments	<u>\$ 125,284</u>

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.

<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, 2010</u>
Special assessment bonds with government commitment					
2010 G.O. Ditch Bonds	2021	\$70,000 - \$85,000	1.25 - 3.50	<u>\$ 750,000</u>	\$ 750,000
Less: unamortized discounts					<u>(5,738)</u>
Special Assessment Bonds With Government Commitment, Net					<u>\$ 744,262</u>

**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, 2010
General obligation bonds					
2005 G.O. Capital Improvement Bonds	2026	\$45,000 - \$125,000	2.90 - 4.30	<u>\$ 1,750,000</u>	\$ 1,505,000
Less: unamortized discounts					<u>(22,715)</u>
Total General Obligation Bonds, Net					<u>\$ 1,482,285</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 \$46,702 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, 2010, were as follows:

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2011	\$ 70,000	\$ 58,573	\$ -	\$ 24,359
2012	75,000	56,087	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 - 2020	450,000	187,450	385,000	46,794
2021 - 2025	550,000	86,772	85,000	1,487
2026	125,000	2,688	-	-
Total	<u>\$ 1,505,000</u>	<u>\$ 543,333</u>	<u>\$ 750,000</u>	<u>\$ 142,541</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

Year Ending December 31	Capital Leases	
	Principal	Interest
2011	\$ 39,957	\$ 5,575
2012	41,735	3,797
2013	43,592	1,940
Total	<u>\$ 125,284</u>	<u>\$ 11,312</u>

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds payable	\$ 1,575,000	\$ -	\$ 70,000	\$ 1,505,000	\$ 70,000
Less: unamortized discounts	(24,246)	-	(1,531)	(22,715)	-
General obligation bonds, net	<u>\$ 1,550,754</u>	<u>\$ -</u>	<u>\$ 68,469</u>	<u>\$ 1,482,285</u>	<u>\$ 70,000</u>
Special assessment bonds with government commitment	\$ -	\$ 750,000	\$ -	\$ 750,000	\$ -
Less: unamortized discounts	-	(6,375)	(637)	(5,738)	-
Special assessment bonds with government commitment, net	<u>\$ -</u>	<u>\$ 743,625</u>	<u>\$ (637)</u>	<u>\$ 744,262</u>	<u>\$ -</u>
Total bonds payable	\$ 1,550,754	\$ 743,625	\$ 67,832	\$ 2,226,547	\$ 70,000
Capital leases	163,538	-	38,254	125,284	39,957
Loans payable	-	46,702	-	46,702	-
Compensated absences	538,513	-	28,903	509,610	50,349
Net OPEB obligation	<u>44,897</u>	<u>10,352</u>	<u>-</u>	<u>55,249</u>	<u>-</u>
Governmental Activities Long-Term Liabilities	<u>\$ 2,297,702</u>	<u>\$ 800,679</u>	<u>\$ 134,989</u>	<u>\$ 2,963,392</u>	<u>\$ 160,306</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

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**

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; 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 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.4 percent.

**ROCK COUNTY
LIVERNE, MINNESOTA**

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 2010:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00
Public Employees Police and Fire Fund	14.10

Rock County's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	2010	2009	2008
General Employees Retirement Fund	\$ 250,803	\$ 242,186	\$ 219,163
Public Employees Police and Fire Fund	86,445	91,604	92,707

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

B. Defined Contribution Plan

Two 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**

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, 2010, were:

	Employee	Employer
Contribution amount	\$ 1,956	\$ 1,956
Percentage of covered payroll	5.00%	5.00%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

In 2009, Rock County implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

This statement required the County to calculate and record a net OPEB obligation at December 31, 2009. The net OPEB obligation is, in general, the cumulative difference between the actuarial required contribution and the actual contributions since January 1, 2009.

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.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Funding Policy (Continued)

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 2010, there were approximately 80 participants in the plan, including 3 retirees. The implicit rate subsidy amount was determined by an actuary study to be \$46,363 for 2010.

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	2,020
Adjustment to ARC	<u>(2,638)</u>
Annual OPEB cost (expense)	\$ 66,652
Contributions made	<u>(56,300)</u>
Increase in net OPEB obligation	\$ 10,352
Net OPEB Obligation - Beginning of Year	<u>44,897</u>
Net OPEB Obligation - End of Year	<u><u>\$ 55,249</u></u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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 and December 31, 2010, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2009	\$ 67,270	\$ 22,373	33.26%	\$ 44,897
December 31, 2010	66,652	56,300	84.47	55,249

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.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

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.

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, 2010, was 27 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.

**ROCK COUNTY
LIVERNE, MINNESOTA**

5. Risk Management (Continued)

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 2010 and 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.

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. Contingent Liabilities

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

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

Lincoln-Pipestone Rural Water System

At December 31, 2010, the Lincoln-Pipestone Rural Water System had \$36,859,000 of general obligation bonds outstanding through 2050. 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.

**ROCK COUNTY
LIVERNE, MINNESOTA**

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

B. Joint Ventures

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

Lincoln-Pipestone Rural Water System

Rock County, along with 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, 2010, are \$36,859,000.

The Lincoln-Pipestone Rural Water System's 2010 financial report shows total net assets of \$42,424,191, including unrestricted net assets of \$18,949,248. The increase in net assets for the year ended December 31, 2010, is \$5,340,636. Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at East Highway 14, P. O. Box 188, Lake Benton, Minnesota 56149-0188.

Nobles-Rock Community Health Services

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Nobles-Rock Community Health Services (Continued)

The Nobles-Rock Community Health Services is headquartered in Worthington, Minnesota, with offices at the county seats of the member counties. Financing is provided by state grants, appropriations from member counties, and charges for services. The County's contribution for December 31, 2010, was \$114,379.

Financial data of the Health Services for the year ended December 31, 2009 (most recent information available), are:

Total Assets	\$	788,779
Total Liabilities		302,999
Total Net Assets		485,780
Total Revenues		1,519,343
Total Expenses		1,376,676
Increase (Decrease) in Net Assets		142,667

The Health Services' long-term debt consists of compensated absences of \$83,997.

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, 2009 (most recent information available), totaled \$71,076.

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Rock-Nobles Community Corrections (Continued)

The following is a summary of Rock-Nobles Community Corrections' annual financial report for the year ended December 31, 2009 (most recent information available):

Total Assets	\$	347,582
Total Liabilities		87,232
Total Fund Equity		260,350
Total Revenues		702,874
Total Expenditures/Expenses		707,352
Increase (Decrease) in Fund Equity		(4,478)

Rock-Nobles Community Corrections' long-term debt consists of employees' compensated absences payable of \$68,411 at December 31, 2009.

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

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, 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**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The following is a summary of the Board's annual financial report 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 2010, Rock County did not make any contributions to the Joint Powers Board.

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. 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 2010, the County did not make any contributions to the SW-RSVP.

C. Jointly-Governed Organizations

Kanaranzi-Little Rock Watershed District

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

Rock-Pipestone Family Service Collaborative

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

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

Reporting Entity

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

Basis of Presentation

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

Deposits and Investments

The cash balances are invested by the District for the purpose of increasing earnings through investment activities. Investments are reported at fair value at December 31, 2010, based on market prices. Pooled investment earnings for 2010 were \$39,183.

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Deposits and Investments (Continued)

Rock County is holding 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 \$1,464,107 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	\$ 183,852
Investments	1,034,242
Investments - restricted	<u>1,464,107</u>
Total Deposits and Investments	<u>\$ 2,682,201</u>
Petty cash and change funds	\$ 75
Deposits - held by the District	183,780
Deposits - held by the County	289,107
Certificates of deposit - held by the District	939,188
Certificates of deposit - held by the County	1,175,000
MAGIC Fund	<u>95,051</u>
Total Deposits and Investments	<u>\$ 2,682,201</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

1. Assets (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. As of December 31, 2010, none of the District's bank balance of \$1,123,851 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized with securities held by the pledging financial institution's trust department not in the Rural Water District's name	<u>\$ 1,123,851</u>
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Receivables

Receivables as of December 31, 2010, for the Rock County Rural Water District's governmental activities follow:

Special assessments	\$ 546
Accounts	152
Interest	<u>21,480</u>
Total Business-Type Activities	<u>\$ 22,178</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

1. Assets (Continued)

Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land and right-of-way	\$ 118,235	\$ -	\$ -	\$ 118,235
Lewis and Clark project	632,123	-	-	632,123
Expansion project	21,704	-	-	21,704
Total capital assets not depreciated	<u>\$ 772,062</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 772,062</u>
Capital assets depreciated				
Buildings and pumps	\$ 2,885,080	\$ 1,792	\$ -	\$ 2,886,872
Machinery, furniture, and equipment	174,520	67,405	44,064	197,861
Infrastructure - distribution system	4,015,001	19,580	-	4,034,581
Total capital assets depreciated	<u>\$ 7,074,601</u>	<u>\$ 88,777</u>	<u>\$ 44,064</u>	<u>\$ 7,119,314</u>
Less: accumulated depreciation for				
Buildings and pumps	\$ 1,383,785	\$ 77,674	\$ -	\$ 1,461,459
Machinery, furniture, and equipment	151,012	13,308	42,528	121,792
Infrastructure - distribution system	1,875,307	101,907	-	1,977,214
Total accumulated depreciation	<u>\$ 3,410,104</u>	<u>\$ 192,889</u>	<u>\$ 42,528</u>	<u>\$ 3,560,465</u>
Total capital assets depreciated, net	<u>\$ 3,664,497</u>	<u>\$ (104,112)</u>	<u>\$ 1,536</u>	<u>\$ 3,558,849</u>
Capital Assets, Net	<u>\$ 4,436,559</u>	<u>\$ (104,112)</u>	<u>\$ 1,536</u>	<u>\$ 4,330,911</u>

Depreciation expense of \$192,889 was charged to the District function.

**ROCK COUNTY
LUVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes (Continued)

2. Liabilities

Payables

Payables at December 31, 2010, were as follows:

Accounts	\$	9,733
Salaries		57,002
Other		546
		546
Total Payables	\$	67,281

Long-Term Debt

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

Financing was obtained again during 2007 through Rock County with the Minnesota Public Facilities Authority in the form of a General Obligation Revenue Note of \$533,000 at 1.02 percent interest.

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2010
General obligation bonds and notes					
2000 G.O. Revenue Bonds	2019	\$14,000 - \$89,000	1.79	\$ 1,460,000	\$ 745,000
2007 G.O. Revenue Note	2026	\$16,000 - \$31,000	1.02	533,000	464,000
Total				\$ 1,993,000	\$ 1,209,000

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

2. Liabilities (Continued)

Debt Service Requirements

Debt service requirements at December 31, 2010, were as follows:

Year Ending December 31	General Obligation Revenue Bond		General Obligation Revenue Note	
	Principal	Interest	Principal	Interest
2011	\$ 77,000	\$ 13,336	\$ 27,000	\$ 4,733
2012	78,000	11,957	27,000	4,457
2013	80,000	10,561	27,000	4,182
2014	81,000	9,129	28,000	3,907
2015	83,000	7,679	28,000	3,621
2016 - 2020	346,000	15,626	144,000	13,759
2021 - 2025	-	-	152,000	6,264
2026	-	-	31,000	316
Total	\$ 745,000	\$ 68,288	\$ 464,000	\$ 41,239

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. revenue bond	\$ 821,000	\$ -	\$ 76,000	\$ 745,000	\$ 77,000
G.O. revenue note	491,000	-	27,000	464,000	27,000
Long-Term Liabilities	\$ 1,312,000	\$ -	\$ 103,000	\$ 1,209,000	\$ 104,000

**ROCK COUNTY
LUVERNE, MINNESOTA**

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 defined benefit plans 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, 2010, 2009, and 2008, were \$13,998, \$14,085, and \$11,833, 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, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,399,016	\$ 2,399,016	\$ 2,169,586	\$ (229,430)
Licenses and permits	1,165	1,165	1,445	280
Intergovernmental	666,783	666,783	961,067	294,284
Charges for services	1,179,214	1,179,214	1,249,160	69,946
Fines and forfeits	10,000	10,000	17,847	7,847
Gifts and contributions	-	-	2,539	2,539
Investment earnings	86,000	86,000	93,797	7,797
Miscellaneous	177,285	177,285	207,333	30,048
Total Revenues	\$ 4,519,463	\$ 4,519,463	\$ 4,702,774	\$ 183,311
Expenditures				
Current				
General government				
Commissioners	\$ 223,759	\$ 221,739	\$ 162,032	\$ 59,707
Law library	-	-	9,356	(9,356)
County administration	158,789	158,789	194,625	(35,836)
Auditor/Treasurer	258,743	258,743	265,410	(6,667)
License center	99,871	99,871	102,357	(2,486)
Elections	40,067	40,067	38,597	1,470
Accounting and auditing	45,000	45,000	48,962	(3,962)
Data processing	180,220	180,220	152,294	27,926
Attorney	149,132	149,132	147,284	1,848
Land records	371,320	371,320	405,279	(33,959)
Buildings and plant	265,081	265,081	262,013	3,068
Veterans service officer	33,731	33,731	35,987	(2,256)
Transportation	339,510	339,510	245,088	94,422
Veterans memorial	-	-	13,789	(13,789)
Heartland building	-	-	72,889	(72,889)
Other general government	-	-	350	(350)
Total general government	\$ 2,165,223	\$ 2,163,203	\$ 2,156,312	\$ 6,891
Public safety				
Sheriff	\$ 1,555,009	\$ 1,555,009	\$ 1,536,797	\$ 18,212
Coroner	10,000	10,000	4,154	5,846
Regional dispatch	-	-	69,143	(69,143)
E-911 system	-	-	60,033	(60,033)
Prisoner care	94,000	94,000	102,334	(8,334)
Emergency services	-	-	308	(308)
Total public safety	\$ 1,659,009	\$ 1,659,009	\$ 1,772,769	\$ (113,760)

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Health				
Community health	\$ 16,800	\$ 16,800	\$ 1,800	\$ 15,000
Culture and recreation				
Historical society	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Minnesota trails	-	-	6,091	(6,091)
Senior citizens	6,204	6,204	5,338	866
Library	257,716	257,716	239,261	18,455
Heritage museum	29,370	29,370	31,693	(2,323)
Library donations	-	-	9,105	(9,105)
Children's library books	-	-	4,833	(4,833)
Other	3,000	5,920	20,920	(15,000)
Total culture and recreation	\$ 306,290	\$ 309,210	\$ 327,241	\$ (18,031)
Conservation of natural resources				
Extension	\$ 124,135	\$ 124,135	\$ 126,450	\$ (2,315)
Agricultural society	16,000	16,000	16,000	-
Total conservation of natural resources	\$ 140,135	\$ 140,135	\$ 142,450	\$ (2,315)
Economic development				
Tourism	\$ 1,400	\$ 500	\$ 500	\$ -
Intergovernmental				
Public safety	\$ 62,547	\$ 62,547	\$ 62,547	\$ -
Health	\$ 114,379	\$ 114,379	\$ 114,379	\$ -
Debt service				
Principal	\$ -	\$ -	\$ 38,254	\$ (38,254)
Interest	\$ -	\$ -	\$ 7,277	\$ (7,277)
Total Expenditures	\$ 4,465,783	\$ 4,465,783	\$ 4,623,529	\$ (157,746)

**ROCK COUNTY
LUVERNE, MINNESOTA**

***EXHIBIT A-1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under) Expenditures	\$ 53,680	\$ 53,680	\$ 79,245	\$ 25,565
Other Financing Sources (Uses)				
Transfers in	\$ 73,467	\$ 73,467	\$ 60,000	\$ (13,467)
Transfers out	-	-	(10,000)	(10,000)
Proceeds from loan collections	1,000	1,000	40	(960)
Proceeds from the sale of assets	2,000	2,000	4,650	2,650
Total Other Financing Sources (Uses)	\$ 76,467	\$ 76,467	\$ 54,690	\$ (21,777)
Net Change in Fund Balance	\$ 130,147	\$ 130,147	\$ 133,935	\$ 3,788
Fund Balance - January 1	3,474,389	3,474,389	3,474,389	-
Fund Balance - December 31	\$ 3,604,536	\$ 3,604,536	\$ 3,608,324	\$ 3,788

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
PUBLIC WORKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 646,436	\$ 646,436	\$ 578,313	\$ (68,123)
Intergovernmental	1,105,390	1,105,390	4,229,127	3,123,737
Charges for services	364,000	364,000	454,685	90,685
Investment earnings	32,000	32,000	19,325	(12,675)
Miscellaneous	5,005	5,005	34,882	29,877
Total Revenues	\$ 2,152,831	\$ 2,152,831	\$ 5,316,332	\$ 3,163,501
Expenditures				
Current				
Highways and streets				
Administration	\$ 225,738	\$ 225,738	\$ 213,292	\$ 12,446
Maintenance	859,362	859,362	798,874	60,488
Construction	250,361	250,361	2,720,882	(2,470,521)
Equipment and maintenance shops	448,553	448,553	516,023	(67,470)
Material and services for resale	12,000	12,000	12,821	(821)
Other	106,859	106,859	107,960	(1,101)
Total highways and streets	\$ 1,902,873	\$ 1,902,873	\$ 4,369,852	\$ (2,466,979)
Sanitation				
Solid waste	189,958	189,958	347,578	(157,620)
Intergovernmental				
Highways and streets	-	-	232,763	(232,763)
Total Expenditures	\$ 2,092,831	\$ 2,092,831	\$ 4,950,193	\$ (2,857,362)
Excess of Revenues Over (Under) Expenditures	\$ 60,000	\$ 60,000	\$ 366,139	\$ 306,139
Other Financing Sources (Uses)				
Transfers out	(60,000)	(60,000)	(60,000)	-
Net Change in Fund Balance	\$ -	\$ -	\$ 306,139	\$ 306,139
Fund Balance - January 1	750,529	750,529	750,529	-
Increase (decrease) in reserved for inventories	-	-	(8,656)	(8,656)
Fund Balance - December 31	\$ 750,529	\$ 750,529	\$ 1,048,012	\$ 297,483

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,034,368	\$ 1,034,368	\$ 933,156	\$ (101,212)
Intergovernmental	1,344,368	1,344,368	1,379,290	34,922
Charges for services	56,077	56,077	52,937	(3,140)
Miscellaneous	178,420	178,420	134,978	(43,442)
Total Revenues	\$ 2,613,233	\$ 2,613,233	\$ 2,500,361	\$ (112,872)
Expenditures				
Current				
Human services				
Income maintenance	\$ 867,197	\$ 867,197	\$ 877,260	\$ (10,063)
Social services	1,746,036	1,746,036	1,605,790	140,246
Total Expenditures	\$ 2,613,233	\$ 2,613,233	\$ 2,483,050	\$ 130,183
Net Change in Fund Balance	\$ -	\$ -	\$ 17,311	\$ 17,311
Fund Balance - January 1	981,283	981,283	981,283	-
Fund Balance - December 31	\$ 981,283	\$ 981,283	\$ 998,594	\$ 17,311

**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
LAND MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 22,886	\$ 22,886	\$ 21,365	\$ (1,521)
Special assessments	209,364	209,364	208,109	(1,255)
Licenses and permits	33,884	33,884	31,298	(2,586)
Intergovernmental	181,565	181,565	213,894	32,329
Charges for services	2,275	2,275	1,868	(407)
Investment earnings	-	-	1,743	1,743
Miscellaneous	55,949	55,949	16,790	(39,159)
Total Revenues	\$ 505,923	\$ 505,923	\$ 495,067	\$ (10,856)
Expenditures				
Current				
General government				
Planning and zoning	\$ 38,296	\$ 38,296	\$ 35,634	\$ 2,662
Sanitation				
Solid waste	\$ 48,449	\$ 48,449	\$ 52,203	\$ (3,754)
Recycling	94,288	94,288	87,158	7,130
Hazardous waste	26,930	26,930	25,075	1,855
Environmental office	139,412	139,412	137,920	1,492
Total sanitation	\$ 309,079	\$ 309,079	\$ 302,356	\$ 6,723
Conservation of natural resources				
Agricultural inspection	\$ 11,592	\$ 11,592	\$ 10,452	\$ 1,140
Water planning	146,956	146,956	169,185	(22,229)
Total conservation of natural resources	\$ 158,548	\$ 158,548	\$ 179,637	\$ (21,089)
Total Expenditures	\$ 505,923	\$ 505,923	\$ 517,627	\$ (11,704)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (22,560)	\$ (22,560)
Other Financing Sources (Uses)				
Loans issued	-	-	46,702	46,702
Net Change in Fund Balance	\$ -	\$ -	\$ 24,142	\$ 24,142
Fund Balance - January 1	919,619	919,619	919,619	-
Fund Balance - December 31	\$ 919,619	\$ 919,619	\$ 943,761	\$ 24,142

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

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**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT A-5

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2010

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
LIVERNE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2010

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	\$ 4,623,529	\$ 4,465,783	\$ 157,746
Special Revenue Funds			
Public Works	4,950,193	2,092,831	2,857,362
Land Management	517,627	505,923	11,704

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
LIVERNE, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 122,066	\$ 122,066	\$ 110,470	\$ (11,596)
Intergovernmental	14,167	14,167	20,079	5,912
Total Revenues	\$ 136,233	\$ 136,233	\$ 130,549	\$ (5,684)
Expenditures				
Debt service				
Principal	\$ 74,890	\$ 74,890	\$ 70,000	\$ 4,890
Interest	60,918	60,918	60,917	1
Administrative (fiscal) fees	425	425	425	-
Total Expenditures	\$ 136,233	\$ 136,233	\$ 131,342	\$ 4,891
Net Change in Fund Balance	\$ -	\$ -	\$ (793)	\$ (793)
Fund Balance - January 1	148,742	148,742	148,742	-
Fund Balance - December 31	\$ 148,742	\$ 148,742	\$ 147,949	\$ (793)

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**ROCK COUNTY
LUVERNE, MINNESOTA**

AGENCY FUNDS

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

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

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

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**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 191,414	\$ 57,418	\$ 119,590	\$ 129,242
<u>Liabilities</u>				
Accounts payable	\$ 191,414	\$ 57,418	\$ 119,590	\$ 129,242
 <u>SOCIAL WELFARE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 47,398	\$ 245,957	\$ 263,369	\$ 29,986
<u>Liabilities</u>				
Accounts payable	\$ 47,398	\$ 245,957	\$ 263,369	\$ 29,986
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 53,669	\$ 13,022,239	\$ 12,971,258	\$ 104,650
<u>Liabilities</u>				
Due to other governments	\$ 53,669	\$ 13,022,239	\$ 12,971,258	\$ 104,650

**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, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 292,481</u>	<u>\$ 13,325,614</u>	<u>\$ 13,354,217</u>	<u>\$ 263,878</u>
<u>Liabilities</u>				
Accounts payable	\$ 238,812	\$ 303,375	\$ 382,959	\$ 159,228
Due to other governments	<u>53,669</u>	<u>13,022,239</u>	<u>12,971,258</u>	<u>104,650</u>
Total Liabilities	<u>\$ 292,481</u>	<u>\$ 13,325,614</u>	<u>\$ 13,354,217</u>	<u>\$ 263,878</u>

OTHER SCHEDULES

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**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Shared Revenue

State

Highway users tax	\$ 3,642,560
County program aid	356,818
PERA rate reimbursement	15,088
Disparity reduction aid	6,815
Police aid	66,183
Enhanced 911	75,002
Market value credit	305,500
Market value credit - mobile home	45
Market value credit - agriculture	14,559
	<u>14,559</u>

Total shared revenue **\$ 4,482,570**

Reimbursement for Services

Minnesota Department of Human Services	\$ 236,362
	<u>236,362</u>

Payments

Local

Payments in lieu of taxes	\$ 41,142
Local	33,425
	<u>33,425</u>

Total payments **\$ 74,567**

Grants

State

Minnesota Department/Board of Human Services	\$ 377,833
Natural Resources	6,090
Public Safety	83,292
Transportation	175,380
Water and Soil Resources	116,370
Veterans Affairs	1,400
Pollution Control Agency	64,648
	<u>64,648</u>

Total state **\$ 825,013**

Federal

Department of Agriculture	\$ 84,273
Health and Human Services	535,230
Transportation	565,442
	<u>565,442</u>

Total federal **\$ 1,184,945**

Total state and federal grants **\$ 2,009,958**

Total Intergovernmental Revenue **\$ 6,803,457**

**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster		
State Administrative Matching Grants for SNAP	10.561	\$ 83,089
State Administrative Matching Grants for SNAP - ARRA	10.561	1,184
Total U.S. Department of Agriculture		\$ 84,273
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$ 452,609
Formula Grants for Other Than Urbanized Areas	20.509	83,047
Total U.S. Department of Transportation		\$ 535,656
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State		
Help America Vote Act Requirements Payments	90.401	\$ 4,800
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Temporary Assistance for Needy Families	93.558	\$ 58,710
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	150,133
Child Support Enforcement - ARRA	93.563	11,128
Refugee and Entrant Assistance - State-Administered Programs	93.566	99
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	4,858
Stephanie Tubbs Jones Child Welfare Services Program	93.645	22
Foster Care - Title IV-E	93.658	32,335
Social Services Block Grant	93.667	72,290
Chafee Foster Care Independence Program	93.674	2,650
Children's Health Insurance Program	93.767	12
Medical Assistance Program	93.778	202,993
Total U.S. Department of Health and Human Services		\$ 535,230
Total Federal Awards		\$ 1,159,959

**ROCK COUNTY
LIVERNE, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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, 2010. 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. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,184,945
Highway Planning and Construction grant monies spent in 2009 and not received until March 2010 (CFDA #20.205)	(29,786)
Help America Vote Act Requirements Payments grant monies unspent in previous years and expended in 2010 (CFDA #90.401)	<u>4,800</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u><u>\$ 1,159,959</u></u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

5. Passed Through to Subrecipients

During 2010, the County did not pass any federal money to subrecipients.

6. 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.

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**ROCK COUNTY
LIVERNE, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

I. SUMMARY OF AUDITOR'S RESULTS

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

05-1 Segregation of Duties

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

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

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

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

Client's Response:

Rock County management is aware of 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

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. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

During our audit, we proposed numerous adjustments that resulted in significant changes to the County's financial statements. The adjustments resulted from errors made in recording transactions, with the mapping of various account codes, and with County personnel not including infrastructure additions of \$2,555,407 when capital asset information was provided for the audit. Controls over calculating the proper amounts of assets and liabilities did not detect a number of errors, which resulted in the County's records understating assets, liabilities, and other financing sources (uses), and overstating fund balance, revenues, and expenditures; and the County did not consider the need for controls over the recording of certain accounting transactions. The inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements could be not fairly presented.

We recommend that the County review internal controls currently in place, then design and implement procedures to improve internal controls over financial reporting to detect misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements. In addition, we recommend the County include a final review process to trace items on the financial statements back to the supporting detail to detect errors, including mapping issues and other necessary adjustments that can be made by the County prior to the audit.

Client's Response:

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

09-1 Monitoring Internal Controls

County management is responsible for monitoring its internal controls. Monitoring involves assessing the quality of performance over time. Monitoring should occur during normal operations and include reviews, comparisons, reconciliations, and other actions employees take in performing their duties.

An essential element of monitoring controls includes performing a risk assessment of existing controls over significant functions of the accounting system used to produce financial information for members of the County Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, staffing vacancies, updates to information systems, or changes to services being provided.

Our audit procedures detected areas and responsibilities performed by County staff with little or no documentation of the monitoring taking place by management or other staff members. Some areas with minimal or no monitoring include:

- processing journal entries;
- calculating inventory balances; and
- reviewing capital asset additions, deletions, and balances.

We recommend that a formal plan be developed that calls for assessing and monitoring the significant internal controls on a regular basis, no less than annually. The monitoring should be documented to show the results of the review, changes required, and who performed the work.

Client's Response:

Rock County will continue to work on developing a process for assessing and monitoring internal controls on an annual basis. The process will be documented to show the results of the review and any changes required.

09-5 Preparation of the Schedule of Expenditures of Federal Awards

The Office of Management and Budget's (OMB) Circular A- 133, *Audits of States, Local Governments, and Non-Profit Organizations*, Auditee responsibilities subpart C.300(a) and (d) requires, "The auditee shall identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. The auditee shall prepare appropriate financial statements, including the schedule of expenditures of federal awards in accordance with subpart C.310."

Rock County does not prepare a Schedule of Expenditures of Federal Awards (SEFA), nor does 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.

This condition results in a deficiency in internal control over financial statement preparation and the reporting of federal financial assistance by the County. Since the County has not developed procedures for properly identifying all federal financial assistance, the County relies on its auditors for assistance with preparing the SEFA. Independent auditors cannot be considered part of the County's internal control over financial reporting.

We recommend that Rock County management develop a process, including written procedures that will allow staff to adequately identify federal revenues and accumulate the information needed to prepare the SEFA. Specific measures could include having departments informing accounting/finance when they have received a grant award, holding in suspense accounts until properly identified as to nature and source any intergovernmental revenue receipts, and comparison of the prior year SEFA to the current year. For each federal award identified, the County should determine the correct program CFDA title and number, award number and year, federal grantor agency, pass-through agency, amount received and expended, and whether American Recovery and Reinvestment Act funding is involved. The federal CFDA website is available to assist in this process. Those responsible for compiling the SEFA should obtain the training necessary (through courses or reference materials) to understand the components of the SEFA and properly gather the correct information and maintain supporting documentation. The County should also reconcile the SEFA amounts to the general ledger and financial statements.

Client's Response:

Rock County will work on developing written procedures that will assist in classifying federal financial assistance. The procedures will include developing a Schedule of Expenditures of Federal Awards.

ITEM ARISING THIS YEAR

10-1 Preparation of Financial Statements

Rock County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal control over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

The County has established controls and procedures for recording, processing, and summarizing its accounting data used in the preparation of its financial statements.

As is the case with many small and medium-sized entities, the County has 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. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the County's internal control. As a result of this condition, the County lacks internal controls over the preparation of financial statements in accordance with GAAP.

We recommend Rock County obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If the County still intends to have staff from the Office of the State Auditor (OSA) assist in preparation then, at a minimum, it must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the County's financial statements, including notes.

Client's Response:

Rock County will work on developing procedures to internally prepare the annual financial statements in accordance with GAAP.

PREVIOUSLY REPORTED ITEM RESOLVED

Preparation of IFS Financial Statements (09-2)

Rock County contracts with Computer Professionals Unlimited, Inc. (CPUI), a service organization, to assist in the preparation of the basic financial statements from the County's Integrated Financial System (IFS), which is software that provides a database and user interface for the County's general ledger, accounting, and financial reporting. CPUI told the County a bug in the printed reports was not calculating certain amounts correctly, but the County's internal data was fine.

Resolution

For the 2010 audit, no issues were noted with the IFS printed reports calculating certain amounts incorrectly.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS RESOLVED

Davis-Bacon Act Compliance (CFDA #20.500) (09-3)

When required by the Davis-Bacon Act, all laborers and mechanics employed by the contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project. In November 2008, the County awarded a contract for the construction of a transit building to be paid, in part, using federal funding not to exceed \$495,000, through a Federal Transit Capital Investment Grant, CFDA #20.500. Work on the project began and was completed in 2009. The contract for the construction of the transit building did not contain language or rates for federal and state prevailing wages.

Resolution

All contracts tested for Davis-Bacon Act compliance in 2010 contained language and rates for federal and state prevailing wages.

Reporting Requirements (CFDA #20.205) (09-4)

During 2009, Rock County received federal funding for Highway Planning and Construction, CFDA #20.205. Funding is received based on an approved eligible amount after contractors are paid for completed work. Funding of the eligible expenditures for this program was approved in the amount of 80 percent of eligible costs. In April 2009, the County requested federal funding incorrectly based on the certified amount of the project to date and included amounts previously requested in March 2009 as well as funding that was later determined to be paid as state funding. The corresponding payment to the contractor for April 2009 was \$344,180; therefore, 80 percent of this amount, calculated as \$275,344, should have been requested. The County received \$204,876 in excess of eligible federal expenditures for the period.

Resolution

During our audit of CFDA #20.205, we noted that no reimbursement requests were made based on ineligible expenditures for the period.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS RESOLVED

Default and Collateral Substitution (08-4)

No written agreement between the County and First Farmers & Merchants Bank addressed the default language required by Minn. Stat. § 118A.03, subs. 4 and 6. The collateral control agreement between the County and First Farmers & Merchants Bank provides that the County “. . . consents to any sale, transfer for value or redemption of any or all of the Securities and to any reinvestment of the proceeds. . . .”

Resolution

In December 2010, Rock County received an updated collateral control agreement between the County and First Farmers & Merchants Bank that addresses the default language as required by Minn. Stat. § 118A.03, subs. 4 and 6.

Withholding Affidavit for Contractors (IC-134) (09-6)

Final payment was made on the project for the transit building before Form IC-134, which requires employee withholdings, was received from the contractor and subcontractors and approved by the Minnesota Department of Revenue.

Resolution

Final payment was not made until after Form IC-134 was submitted and approved by the Minnesota Department of Revenue on all contracts tested for compliance during the current audit.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

06-16 **Tax Identification Number**

The Buffalo Ridge Rail Authority uses the County’s tax identification number on its bank account even though the organization is not part of the County. The December 31, 2010, bank balance of the account was \$1,716.

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

We recommend that the County inform the unauthorized organization currently using the County's tax identification number that it can no longer use the number. We also recommend the County periodically check with the financial institutions to be sure no one else is the County's tax identification number on an account.

Client's Response:

Buffalo Ridge Rail Authority has been informed and will resolve in 2011.

PREVIOUSLY REPORTED ITEM RESOLVED

Meeting Minutes (09-7)

While we were on site to perform audit procedures in September 2010, we noted no minutes were signed after September 22, 2009, and the last copy of minutes in the book of official minutes was for the June 15, 2010, meeting.

Resolution

No deficiencies were noted with the book of official minutes while we were on site to perform audit procedures in July 2011.

C. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Rock County for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

The County should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The County can start with the following steps:

- review the requirements of GASB Statement 54;
- review current fund balances and compare to the new classifications;
- reclassify January 1, 2011, fund balance using the new classifications;
- review/update/prepare a comprehensive fund balance policy;
- prepare appropriate Board resolutions to commit fund balance; and
- if the County Board intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in the new standard. The new definition for a special revenue fund could have significant impact on the County's current fund classifications.

GASB Statement 54 provides a new and clearer description of when it is appropriate to account for an activity using a special revenue fund. Special revenue funds are used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects, where the restricted or committed revenue sources comprise a substantial portion of the fund's resources, and are expected to continue to do so in the future. The standard does not define substantial portion; however, most recommendations are generally that the restricted or committed revenues should comprise at least 35 to 50 percent of total fund revenues. Under this definition, it is possible that some current special revenue funds will no longer meet the requirements for special revenue fund treatment. The County's management should review the County's special revenue funds to ensure these funds continue to warrant treatment as special revenue funds.

The County's management should perform the following steps prior to December 31, 2011:

- prepare a list of the County's special revenue funds;
- determine the sources of revenues for each of those funds;
- identify whether any of those revenues are restricted or committed;
- determine if these restricted or committed revenues represent a substantial portion of the fund's revenues and are expected to continue to be a substantial source of revenues;
 - if yes, the fund may continue to be classified as a special revenue fund;
 - if not, determine whether the County will combine that fund with the general fund or with a similar purpose special revenue fund that meets the new definition;

- code revenues in the general ledger by source constraints--restricted, committed, assigned, or unassigned; and
- determine if there needs to be a restatement of beginning fund balances.

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, such as detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at:

http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.



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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, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 19, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Rock County Rural Water District, which represents the amounts shown as the discretely presented component unit, as described in our report on Rock County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 06-3 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 05-1, 09-1, 09-5, and 10-1 to be significant deficiencies.

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.

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

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

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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 19, 2011

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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, 2010. 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, 2010.

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.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 19, 2011