

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

ROCK COUNTY
LIVERNE, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013



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

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**ROCK COUNTY
LIVERNE, MINNESOTA**

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**ROCK COUNTY
LIVERNE, MINNESOTA**

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**ROCK COUNTY
LIVERNE, MINNESOTA**

ORGANIZATION SCHEDULE
2013

Office	Name	Term Expires
Commissioners		
1st District	Kenneth Hoime*	January 2017
2nd District	Stanley Williamson**	January 2015
3rd District	Ronald Boyenga	January 2017
4th District	Robert Jarchow	January 2015
5th District	Jody Reisch	January 2017
Officers		
Elected		
Attorney	Donald R. Klosterbuer	January 2015
Sheriff	Evan Verbrugge	January 2015
Appointed		
Administrator	Kyle J. Oldre	Indefinite
Auditor/Treasurer	Ashley Kurtz	Indefinite
Highway Engineer	Mark Sehr	Indefinite
Land Records Director	Thomas Houselog	Indefinite

*Chair 2013

**Chair 2014

**ROCK COUNTY
LIVERNE, MINNESOTA**

**ORGANIZATION SCHEDULE
ROCK COUNTY RURAL WATER DISTRICT
2013**

<u>Position</u>	<u>Name</u>	<u>Term Expires</u>
Chair	Marvin Tofteland	April 2016
Vice Chair	Paul Arends	April 2014
Secretary	Nancy Overgaard	April 2014
Treasurer	Ronald Boyenga	April 2016
Director	Del Walraven	April 2015
Director	Matt Boeve	April 2015
Director	Lila Bauer	April 2016

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Rock County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal

control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, 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, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Rock County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a

required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2014, 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* in considering Rock County's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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. The 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

August 18, 2014

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**ROCK COUNTY
LIVERNE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(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, 2013. 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 position is \$57,929,178, of which \$50,973,441 represents net investment in capital assets, and \$1,519,820 is restricted to specific purposes. The \$5,435,917 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net position increased by \$2,852,618 for the year ended December 31, 2013. A large part of the increase is attributable to the County's net investment in capital assets.
- The net cost of governmental activities for the current fiscal year was \$2,306,478. General revenues and other items totaling \$5,159,096 funded the net cost.
- At the close of 2013, Rock County's combined ending governmental fund balances totaled \$8,781,583, a decrease of \$561,524 from 2012. Of this balance, \$4,480,471 was unassigned by Rock County and thus available for spending at the government's discretion.
- For the year ended December 31, 2013, the assigned and unassigned balance of the General Fund was \$4,863,201 or 85.8 percent of the total General Fund expenditures for that year. This represents a decrease from 2012, which had 90.1 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 Position presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference being reported as net position. Over time, increases or decreases in net position 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 are 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, Ditch Special Revenue Fund, and Debt Service Fund. Budgetary comparison schedules have been provided as either required or other supplementary information for each of these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements are 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. All fiduciary activities are reported in a separate Statement of Fiduciary Net Position on Exhibit 7.

The County presents the Rock County Rural Water District as a discretely presented component unit.

Notes to the Financial Statements

Notes to the financial statements provide additional information 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 30 through 80 of this report.

Other Information

Other information is provided as supplementary information regarding Rock County's intergovernmental revenue and federal awards programs.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. Rock County's assets exceeded liabilities by \$57,929,178 at the close of 2013. The largest portion of Rock County's net position (88.0 percent) reflects the County's net 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 Position

	2013	2012
Assets		
Current and other assets	\$ 10,593,276	\$ 11,392,401
Capital assets	53,915,396	49,983,741
Total Assets	\$ 64,508,672	\$ 61,376,142
Liabilities		
Long-term liabilities	\$ 5,553,387	\$ 5,341,851
Current liabilities	1,026,107	957,731
Total Liabilities	\$ 6,579,494	\$ 6,299,582
Net Position		
Net investment in capital assets	\$ 50,973,441	\$ 47,674,388
Restricted	1,519,820	1,348,084
Unrestricted	5,435,917	6,054,088
Total Net Position	\$ 57,929,178	\$ 55,076,560

Unrestricted net position--the part of net position 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--was 9.4 percent of the net position.

Governmental Activities

The County's activities increased net position by 5.2 percent (\$57,929,178 for 2013 compared to \$55,076,560 for 2012). Key elements in this increase in net position are as follows for 2013, with comparative data for 2012:

Changes in Net Position

	2013	2012
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 2,398,031	\$ 3,011,473
Operating grants and contributions	4,279,553	4,095,091
Capital grants and contributions	2,719,346	688,437
General revenues		
Property taxes	4,588,902	4,531,523
Unrestricted state aid	250,563	924,607
Investment earnings	40,036	62,727
Other	279,595	249,078
Total Revenues	\$ 14,556,026	\$ 13,562,936

	<u>2013</u>	<u>2012</u>
Expenses		
General government	\$ 2,524,105	\$ 2,441,850
Public safety	2,001,314	2,019,247
Highways and streets	4,277,478	4,588,437
Sanitation	791,243	744,832
Human services	1,126,063	1,193,903
Health	74,922	74,922
Culture and recreation	370,904	327,823
Conservation of natural resources	308,346	354,872
Economic development	1,940	2,840
Interest	<u>227,093</u>	<u>108,641</u>
Total Expenses	<u>\$ 11,703,408</u>	<u>\$ 11,857,367</u>
Change in Net Position Before Special Items	\$ 2,852,618	\$ 1,705,569
Special Items	<u>-</u>	<u>(558,094)</u>
Change in Net Position	\$ 2,852,618	\$ 1,147,475
Net Position - January 1	<u>55,076,560</u>	<u>53,929,085</u>
Net Position - December 31	<u>\$ 57,929,178</u>	<u>\$ 55,076,560</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, unrestricted 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 \$8,781,583, a decrease of \$561,524 in comparison with the prior year. Of the combined ending fund balances, \$6,599,909 represents unrestricted (assigned and unassigned) fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is classified as either nonspendable or restricted to indicate that it is not available for new spending because it has already been restricted for various reasons either by state law, grant agreements, bond covenants, or is nonspendable.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unrestricted (assigned and unassigned) fund balance of \$4,863,201. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted (assigned and unassigned) fund balance to total expenditures. The General Fund's unrestricted (assigned and unassigned) fund balance represents 85.8 percent of total General Fund expenditures. During 2013, the ending fund balance decreased by \$349,294. The primary reason for this decrease was due to greater than anticipated expenditures, specifically capital outlay purchases from the bond proceeds received in 2012.

The Public Works Special Revenue Fund had an assigned fund balance of \$777,108 at fiscal year-end, representing 9.6 percent of its annual expenditures. The ending fund balance decreased \$395,955 during 2013, primarily due to greater than anticipated expenditures.

The Family Services Special Revenue Fund had an assigned fund balance of \$257,973 at fiscal year-end, representing 22.9 percent of its annual expenditures. The ending fund balance decreased \$6,519 during 2013, primarily due to greater than anticipated expenditures.

The Land Management Special Revenue Fund had an assigned fund balance of \$701,627 at fiscal year-end, representing 128.5 percent of its annual expenditures. The ending fund balance increased \$268 during 2013.

The Ditch Special Revenue Fund had a restricted fund balance of \$305,542 at fiscal year-end, representing 344.8 percent of its annual expenditures. The ending fund balance decreased \$4,467 during 2013.

The Debt Service Fund had a restricted fund balance of \$356,954 at fiscal year-end, representing 196.1 percent of its annual expenditures. The ending fund balance increased \$194,443. The Debt Service Fund consists of tax levy dollars used to pay the bond for the construction of the Law Enforcement Center as well as the 2012 bond used to purchase capital equipment.

Governmental Activities

The County's total revenues were \$14,556,026. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2013.

**Table 1
Total County Revenues**

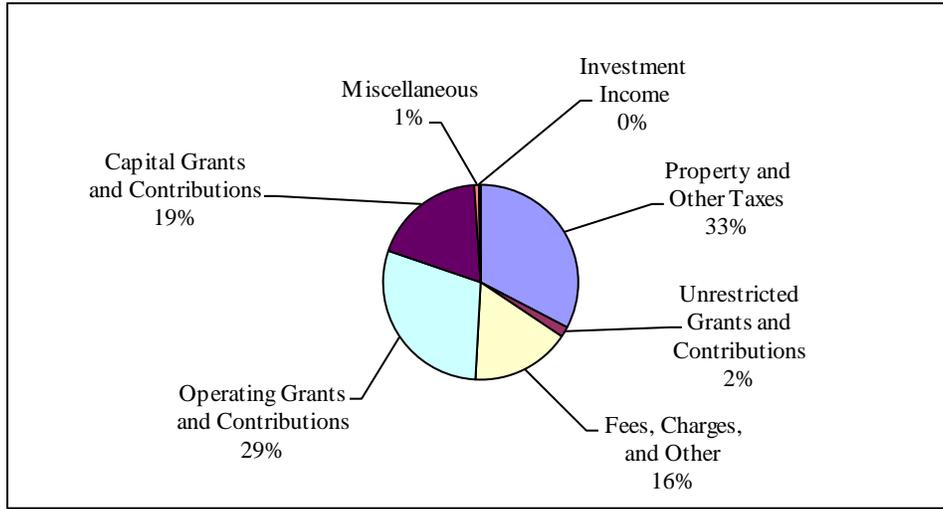
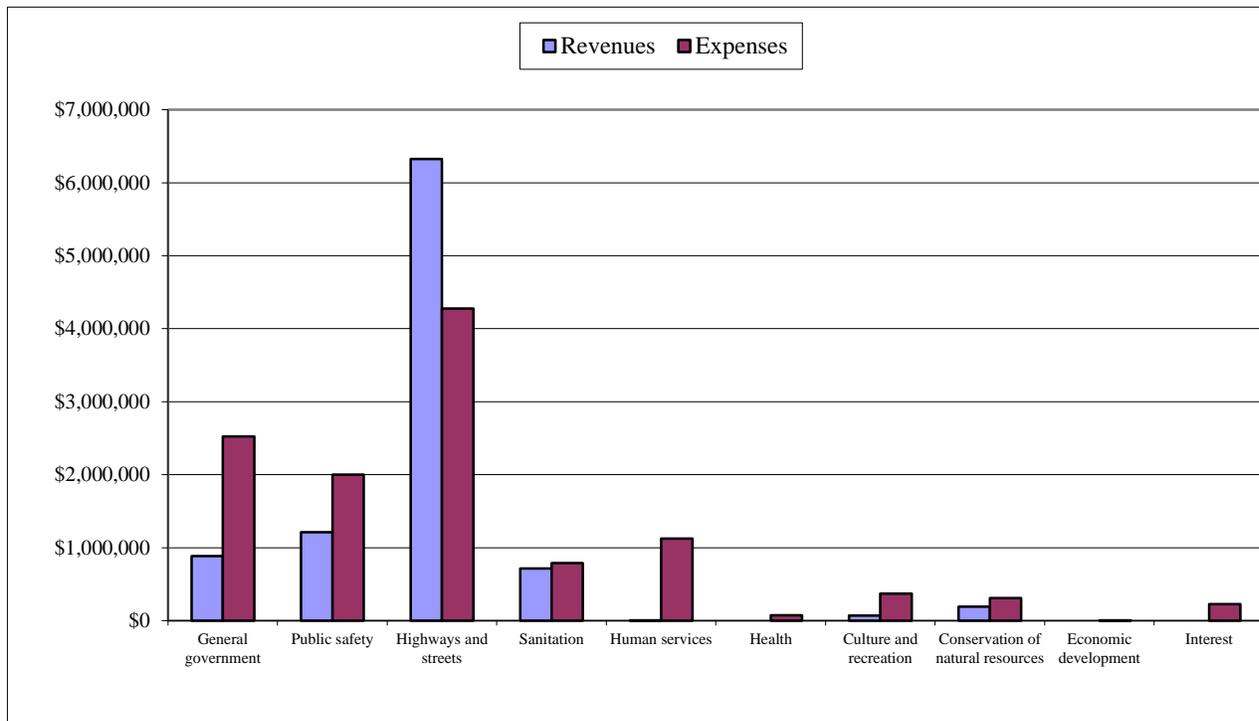


Table 2 presents the cost and revenue of each program of the County. Total program and general revenues for the County were \$14,556,026, while total expenses were \$11,703,408. This reflects a \$2,852,618 increase in net position for the year ended December 31, 2013.

**Table 2
Total Program Revenues and Expenses**



The cost of all governmental activities this year was \$11,703,408. However, as shown on the Statement of Activities on Exhibit 2, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$4,752,357 because some of the costs were paid by those who directly benefited from the programs (\$2,398,031) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,998,899). The County paid for the remaining “public benefit” portion of governmental activities with \$5,159,096 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 investment income.

Table 3 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.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2013	2012	2013	2012
Highways and streets	\$ 4,277,478	\$ 4,588,437	\$ (2,047,616)	\$ 521,803
General government	2,524,105	2,441,850	1,639,627	1,649,845
Public safety	2,001,314	2,019,247	787,937	766,401
Human services	1,126,063	1,193,903	1,126,008	1,193,903
All others	1,774,448	1,613,930	800,522	(69,586)
Totals	<u>\$ 11,703,408</u>	<u>\$ 11,857,367</u>	<u>\$ 2,306,478</u>	<u>\$ 4,062,366</u>

General Fund Budgetary Highlights

Actual General Fund revenues exceeded final budgeted revenues by \$508,966, 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, 2013, totaled \$53,915,396 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$3,931,655, or 7.9 percent, from the previous year. The major capital asset events were additions to:

Infrastructure	\$ 5,112,278
Machinery and equipment	1,150,430

Table 4
Capital Assets at Year-End
(Net of Depreciation)

	2013	2012
Land	\$ 1,212,882	\$ 1,179,782
Construction in progress	420,354	990,156
Works of art and historical treasures	600,000	600,000
Infrastructure	40,237,721	36,236,956
Buildings	7,703,158	7,891,386
Land improvements	174,887	185,992
Machinery, equipment, and vehicles	3,566,394	2,899,469
Total	\$ 53,915,396	\$ 49,983,741

Additional information about the County's capital assets can be found in Note 3.A.4. to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had total net outstanding debt of \$5,069,639, which was backed by the full faith and credit of the government.

Table 5
Outstanding Debt

	2013	2012
General obligation bonds	\$ 4,535,000	\$ 4,680,000
Capital leases	-	43,592
Loans payable	534,639	156,681
Total	\$ 5,069,639	\$ 4,880,273

Minnesota statutes limit the amount of debt a county may levy to three percent of its total market value. At the end of 2013, the County’s outstanding debt was 0.23 percent of its total estimated market value of \$2,218,392,100.

Additional information on the County’s long-term debt can be found in Note 3.C.3. through Note 3.C.5. to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS

- The unemployment rate for Rock County at the end of 2013 was 2.7 percent. This compares favorably with the state unemployment rate of 4.7 percent and shows a slight decrease from the County’s 3.8 percent rate of one year ago. The 2013 population is estimated at 9,524.
- On December 17, 2013, the Rock County Board of Commissioners approved the 2014 budget and adopted a property tax levy of \$4,821,191, which represents a 2.96 percent increase over the 2013 property tax levy of \$4,682,771.

Rock County Tax Rate and Levy History

2014	18.890%	\$4,821,191
2013	24.639	4,682,771
2012	29.144	4,597,714
2011	29.599	4,485,575
2010	28.573	4,170,151
2009	32.755	3,801,061
2008	35.717	3,654,847
2007	36.798	3,481,138

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

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	Primary Government Governmental Activities	Component Unit Rock County Rural Water District
<u>Assets</u>		
Cash and pooled investments	\$ 6,555,391	\$ 518,697
Investments	2,585,500	1,036,506
Investments - restricted	-	1,175,000
Receivables	1,334,629	22,239
Receivables - restricted	-	342,325
Inventories	104,325	124,456
Prepaid items	13,431	2,967
Capital assets		
Non-depreciable capital assets	2,233,236	760,414
Depreciable capital assets - net of accumulated depreciation	51,682,160	3,451,928
Total Assets	\$ 64,508,672	\$ 7,434,532
<u>Liabilities</u>		
Accounts payable and other current liabilities	\$ 823,194	\$ 47,722
Accrued interest payable	50,198	4,345
Customer deposits	19,499	133
Unearned revenue	133,216	-
Long-term liabilities		
Due within one year	1,589,824	110,730
Due in more than one year	3,963,563	799,668
Total Liabilities	\$ 6,579,494	\$ 962,598
<u>Net Position</u>		
Net investment in capital assets	\$ 50,973,441	\$ 3,319,342
Restricted for		
Public safety	261,004	-
Highways and streets	307,537	-
Debt service	322,589	-
Conservation of natural resources	305,542	-
Rural water distribution system	-	1,517,325
Other purposes	323,148	-
Unrestricted	5,435,917	1,635,267
Total Net Position	\$ 57,929,178	\$ 6,471,934

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

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**ROCK COUNTY
LUVERNE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 2,524,105	\$ 556,187
Public safety	2,001,314	917,831
Highways and streets	4,277,478	230,881
Sanitation	791,243	657,193
Human services	1,126,063	55
Health	74,922	-
Culture and recreation	370,904	7,028
Conservation of natural resources	308,346	28,856
Economic development	1,940	-
Interest	227,093	-
	\$ 11,703,408	\$ 2,398,031
Total Governmental Activities	\$ 11,703,408	\$ 2,398,031
 Component Unit		
Rock County Rural Water District	\$ 948,565	\$ 761,207

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 position

Net Position - Beginning

Net Position - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Unit Rock County Rural Water District
\$ 328,291	\$ -	\$ (1,639,627)	
175,315	120,231	(787,937)	
3,495,098	2,599,115	2,047,616	
55,950	-	(78,100)	
-	-	(1,126,008)	
-	-	(74,922)	
62,733	-	(301,143)	
162,166	-	(117,324)	
-	-	(1,940)	
-	-	(227,093)	
\$ 4,279,553	\$ 2,719,346	\$ (2,306,478)	
\$ -	\$ 36,626		\$ (150,732)
		\$ 4,588,902	\$ -
		33,610	-
		80,722	-
		49,123	-
		250,563	-
		40,036	27,353
		116,140	-
		\$ 5,159,096	\$ 27,353
		\$ 2,852,618	\$ (123,379)
		55,076,560	6,595,313
		\$ 57,929,178	\$ 6,471,934

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**ROCK COUNTY
LUVERNE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	General	Public Works
<u>Assets</u>		
Cash and pooled investments	\$ 2,863,147	\$ 662,145
Cash with fiscal agent	1,216,847	-
Petty cash and change funds	1,475	75
Investments	1,720,500	860,000
Taxes receivable		
Prior	10,858	3,231
Special assessments receivable		
Prior	-	-
Noncurrent	-	-
Accounts receivable	34,306	10,865
Accrued interest receivable	2,824	1,263
Loans receivable	246,984	-
Due from other governments	41,711	389,024
Inventories	-	104,325
Prepaid items	10,452	2,795
	\$ 6,149,104	\$ 2,033,723
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 88,555	\$ 122,142
Salaries payable	101,598	48,864
Contracts payable	-	361,888
Due to other governments	73,768	4,742
Unearned revenue	-	-
Customer deposits	1,499	-
	\$ 265,420	\$ 537,636
Deferred Inflows of Resources		
Unavailable revenue	\$ 12,194	\$ 392,542

EXHIBIT 3

<u>Family Services</u>	<u>Land Management</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ 257,973	\$ 891,232	\$ 305,543	\$ 356,954	\$ 5,336,994
-	-	-	-	1,216,847
-	-	-	-	1,550
-	5,000	-	-	2,585,500
4,680	110	-	1,035	19,914
-	8,447	1,136	-	9,583
-	-	415,632	-	415,632
-	-	-	-	45,171
-	6	-	-	4,093
-	157,678	-	-	404,662
-	4,839	-	-	435,574
-	-	-	-	104,325
-	184	-	-	13,431
<u>\$ 262,653</u>	<u>\$ 1,067,496</u>	<u>\$ 722,311</u>	<u>\$ 357,989</u>	<u>\$ 10,593,276</u>
\$ -	\$ 7,362	\$ -	\$ -	\$ 218,059
-	14,275	-	-	164,737
-	-	-	-	361,888
-	-	-	-	78,510
-	133,216	-	-	133,216
-	18,000	-	-	19,499
<u>\$ -</u>	<u>\$ 172,853</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 975,909</u>
<u>\$ 4,680</u>	<u>\$ 8,564</u>	<u>\$ 416,769</u>	<u>\$ 1,035</u>	<u>\$ 835,784</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	General	Public Works
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> (Continued)		
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 104,325
Loans receivable	246,984	-
Prepaid items	10,452	2,795
Restricted for		
Missing heirs	3,549	-
Law library	15,856	-
Gun permit fees	14,165	-
Recorder's technology fund	66,636	-
Recorder's compliance fund	143,152	-
Enhanced 911	228,894	-
Septic system loans	-	-
Sheriff's contingency	10,571	-
Sheriff's forfeited property	18,158	-
Regional dispatch	3,381	-
Transportation	93,955	-
Unspent bond proceeds	152,536	-
Highway allotments	-	219,317
Ditch maintenance and repairs	-	-
Debt service	-	-
Assigned to		
Public works	-	777,108
Family services	-	-
Land management	-	-
Capital improvements	325,000	-
Elections	57,730	-
Unassigned	4,480,471	-
	\$ 5,871,490	\$ 1,103,545
Total Fund Balances		
	\$ 5,871,490	\$ 1,103,545
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 6,149,104	\$ 2,033,723

EXHIBIT 3
(Continued)

<u>Family Services</u>	<u>Land Management</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 104,325
-	157,678	-	-	404,662
-	184	-	-	13,431
-	-	-	-	3,549
-	-	-	-	15,856
-	-	-	-	14,165
-	-	-	-	66,636
-	-	-	-	143,152
-	-	-	-	228,894
-	26,590	-	-	26,590
-	-	-	-	10,571
-	-	-	-	18,158
-	-	-	-	3,381
-	-	-	-	93,955
-	-	-	-	152,536
-	-	-	-	219,317
-	-	305,542	-	305,542
-	-	-	356,954	356,954
-	-	-	-	777,108
257,973	-	-	-	257,973
-	701,627	-	-	701,627
-	-	-	-	325,000
-	-	-	-	57,730
-	-	-	-	4,480,471
<u>\$ 257,973</u>	<u>\$ 886,079</u>	<u>\$ 305,542</u>	<u>\$ 356,954</u>	<u>\$ 8,781,583</u>
<u>\$ 262,653</u>	<u>\$ 1,067,496</u>	<u>\$ 722,311</u>	<u>\$ 357,989</u>	<u>\$ 10,593,276</u>

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**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

Fund balance - total governmental funds (Exhibit 3)		\$ 8,781,583
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		53,915,396
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		835,784
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (4,535,000)	
Unamortized bond discount	21,949	
Unamortized bond premium	(59,879)	
Loans payable	(534,639)	
Compensated absences	(341,560)	
Net OPEB obligation	(104,258)	
Accrued interest payable	(50,198)	
	(5,603,585)	(5,603,585)
Net Position of Governmental Activities (Exhibit 1)		\$ 57,929,178

**ROCK COUNTY
LIVERNE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Public Works
Revenues		
Taxes	\$ 2,538,935	\$ 784,991
Special assessments	-	-
Licenses and permits	12,680	-
Intergovernmental	826,378	6,297,316
Charges for services	1,293,397	589,065
Fines and forfeits	23,024	-
Gifts and contributions	42,153	-
Investment earnings	35,732	4,145
Miscellaneous	238,940	57,874
	\$ 5,011,239	\$ 7,733,391
Expenditures		
Current		
General government	\$ 2,299,243	\$ -
Public safety	1,847,630	-
Highways and streets	-	7,393,373
Sanitation	-	426,457
Health	16,800	-
Culture and recreation	356,422	-
Conservation of natural resources	130,009	-
Economic development	1,940	-
Intergovernmental	145,918	274,153
Capital outlay		
General government	31,645	-
Public safety	154,771	-
Highways and streets	606,596	-
Debt service		
Principal	43,592	-
Interest	34,753	-
Administrative (fiscal) charges	-	-
	\$ 5,669,319	\$ 8,093,983

EXHIBIT 5

Family Services	Land Management	Ditch	Debt Service	Total
\$ 1,064,658	\$ 25,460	\$ -	\$ 303,687	\$ 4,717,731
-	212,298	84,133	-	296,431
-	29,938	-	-	42,618
54,831	220,430	-	15,654	7,414,609
-	2,127	-	-	1,884,589
-	-	-	-	23,024
-	-	-	-	42,153
-	38	-	-	39,915
55	20,990	-	-	317,859
\$ 1,119,544	\$ 511,281	\$ 84,133	\$ 319,341	\$ 14,778,929
\$ -	\$ 40,326	\$ -	\$ -	\$ 2,339,569
-	-	-	-	1,847,630
-	-	-	-	7,393,373
-	324,859	-	-	751,316
-	-	-	-	16,800
-	-	-	-	356,422
-	171,790	-	-	301,799
-	-	-	-	1,940
1,126,063	-	-	-	1,546,134
-	-	-	-	31,645
-	-	-	-	154,771
-	-	-	-	606,596
-	7,379	70,000	90,419	211,390
-	1,625	18,175	90,794	145,347
-	-	425	685	1,110
\$ 1,126,063	\$ 545,979	\$ 88,600	\$ 181,898	\$ 15,705,842

**ROCK COUNTY
LIVERNE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Public Works
Excess of Revenues Over (Under) Expenditures	\$ (658,080)	\$ (360,592)
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ -
Transfers out	(57,000)	-
Proceeds from Lismore Telephone Company Loan	360,000	-
Loans issued	-	-
Proceeds from the sale of capital assets	5,786	-
Total Other Financing Sources (Uses)	\$ 308,786	\$ -
Net Change in Fund Balance	\$ (349,294)	\$ (360,592)
Fund Balance - January 1	6,220,784	1,499,500
Increase (decrease) in inventories	-	(35,363)
Fund Balance - December 31	\$ 5,871,490	\$ 1,103,545

EXHIBIT 5
(Continued)

<u>Family Services</u>	<u>Land Management</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
<u>\$ (6,519)</u>	<u>\$ (34,698)</u>	<u>\$ (4,467)</u>	<u>\$ 137,443</u>	<u>\$ (926,913)</u>
\$ -	\$ -	\$ -	\$ 57,000	\$ 57,000
-	-	-	-	(57,000)
-	-	-	-	360,000
-	34,966	-	-	34,966
-	-	-	-	5,786
<u>\$ -</u>	<u>\$ 34,966</u>	<u>\$ -</u>	<u>\$ 57,000</u>	<u>\$ 400,752</u>
\$ (6,519)	\$ 268	\$ (4,467)	\$ 194,443	\$ (526,161)
264,492	885,811	310,009	162,511	9,343,107
-	-	-	-	(35,363)
<u>\$ 257,973</u>	<u>\$ 886,079</u>	<u>\$ 305,542</u>	<u>\$ 356,954</u>	<u>\$ 8,781,583</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (526,161)

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 inflows of resources - December 31	\$ 835,784	
Deferred inflows of resources - January 1	<u>(1,058,687)</u>	(222,903)

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	\$ 5,726,006	
Current year depreciation	<u>(1,794,351)</u>	3,931,655

Debt issuance proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. The net proceeds for debt issuance are:

Loans issued		(400,756)
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal repayments		
General obligation bonds	\$ 145,000	
Capital leases payment	43,592	
Loan payments	<u>22,798</u>	211,390

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	\$ (5,986)	
Change in net OPEB obligation	(18,622)	
Change in accrued interest payable	3,068	
Amortization of discount on bonds and issuance costs	(83,704)	
Change in inventories	<u>(35,363)</u>	<u>(140,607)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 2,852,618

FIDUCIARY FUNDS

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**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2013**

Assets

Cash and pooled investments	<u>\$ 373,265</u>
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Liabilities

Due to other governments	<u>\$ 373,265</u>
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**ROCK COUNTY
LIVERNE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2013. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

Changes in Accounting Principles

During 2013, the County adopted new accounting guidance by implementing the provisions of GASB Statements 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, modifies and clarifies the requirements for inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.9. in the notes to the financial statements for additional information regarding the County's deferred outflows/inflows of resources.

Restatements of December 31, 2012, net position or fund balance were not required as a result of adopting these changes in accounting principles.

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. § 373.01. 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.

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Administrator, appointed by the County Board, serves as the clerk of the Board but does not vote in its decisions.

Discretely Presented Component Unit

While part of the reporting entity, discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. The Rock County Rural Water District is included in the County's reporting entity because of the significance of its operational and financial relationship with the County. The Rock County Board of Commissioners appoints the members of the Rural Water District Board, and the District has the potential to be a financial burden or benefit to the County. The Rock County Rural Water District was established in 1978 to provide water to rural residents of Rock County with the powers, duties, and privileges granted it by Minn. Stat. ch. 116A. Separate financial statements are not prepared.

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the primary government and its component units. 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. Governmental activities, which are normally supported by taxes and intergovernmental revenue, are reported separately.

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net position, the governmental activities are presented on a consolidated basis and 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 position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

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

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. The County reports all of its governmental funds as major funds.

The County reports the following major governmental funds:

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

- The Public Works Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as committed property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways and accounts for the County's garbage transfer station.
- The Family Services Special Revenue Fund accounts for committed property tax revenues used for economic assistance and community social services programs.
- The Land Management Special Revenue Fund accounts for restricted special assessment revenues, restricted revenues from the state government, and committed property tax revenues for the maintenance of the County's sanitation, planning and zoning, and water planning functions.
- The Ditch Special Revenue Fund accounts for special assessment revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.
- The Debt Service Fund is used to account for the financial resources restricted for payment of long-term principal, interest, and related costs.

Additionally, the County reports the following fund type:

- Fiduciary funds - 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.

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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, 2013, 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 2013 were \$19,004 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 other outstanding balances between funds are reported as “due to/from other funds.”

Advances between funds, as reported in the fund financial statements, are offset by nonspendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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.

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. 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 government-wide financial statements. The County and the Rock County Rural Water District define capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Capital Assets (Continued)

Property, plant, and equipment 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. A liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide financial statements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. 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 vested sick leave.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Long-Term Obligations (Continued)

In the fund financial statements, governmental funds 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.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the County has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Classification of Net Position

Net position in the government-wide and the component unit financial statements is classified in the following categories:

- Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

11. Classification of Fund Balances

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

- Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.
- Restricted - amounts in which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances (Continued)

- Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.
- Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board, the County Administrator, or the County Auditor/Treasurer, who have been delegated that authority by Board resolution.
- Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Minimum Fund Balance

Rock County has adopted a minimum fund balance policy for the General Fund and special revenue funds. The General Fund and special revenue funds are heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of no less than 35 to 50 percent of fund operating revenues, or no less than five months of operating expenditures.

13. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2013.

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 5,669,319	\$ 4,575,773	\$ 1,093,546
Special Revenue Funds			
Public Works	8,093,983	2,346,312	5,747,671
Family Services	1,126,063	1,121,454	4,609
Land Management	545,979	497,984	47,995

**ROCK COUNTY
LIVERNE, 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:

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 6,555,391
Investments	2,585,500
Statement of fiduciary net position	
Cash and pooled investments	<u>373,265</u>
Total Cash and Investments	<u>\$ 9,514,156</u>
Petty cash and change funds	\$ 1,550
Checking	3,837,219
Cash with fiscal agent	1,216,847
Money market savings	1,873,040
Certificates of deposit	<u>2,585,500</u>
Total Deposits and Investments	<u>\$ 9,514,156</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.

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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, 2013, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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
LUVERNE, 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 policy of the County and the Rock County Rural Water District to invest only in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage are available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31 2013, 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
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2013, for the County's governmental activities are as follows:

	Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 19,914	\$ -
Special assessments	425,215	356,256
Accounts receivable	45,171	-
Interest	4,093	-
Loans receivable	404,662	362,827
Due from other governments	435,574	-
	<u>\$ 1,334,629</u>	<u>\$ 719,083</u>
Total Governmental Activities	<u>\$ 1,334,629</u>	<u>\$ 719,083</u>

3. Loans Receivable

The General Fund has a \$246,984 loans receivable balance as follows:

During March 2012, the County approved a \$150,000 loan to the Southwestern Mental Health Center, Inc., to bridge a financing gap for a building project. The loan is to be repaid with semi-annual repayments of \$3,336 each year, which includes interest on the unpaid principal at two percent beginning October 15, 2013, and ending March 1, 2043. The loan was issued during July 2013.

During May 2013, the County issued a \$100,000 no-interest loan to the Rock County Agricultural Society to assist with fundraising gaps. Repayment is scheduled in \$20,000 installments beginning in 2014 and ending in 2018.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Loans Receivable (Continued)

The Land Management Special Revenue Fund has a \$157,678 loans receivable balance from septic loans issued in 2010, 2011, 2012, and 2013. Loans receivable activity for MPCA septic system loans is as follows:

Loans receivable, January 1, 2013	\$	137,243
New loans issued during the year - MPCA		34,965
Payments received during the year		(14,530)
Loans Receivable	\$	157,678

4. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 193,861	\$ -	\$ -	\$ 193,861
Right-of-way	985,921	33,100	-	1,019,021
Construction in progress	990,156	420,354	990,156	420,354
Works of art and historical treasures	600,000	-	-	600,000
Total capital assets not depreciated	\$ 2,769,938	\$ 453,454	\$ 990,156	\$ 2,233,236
Capital assets depreciated				
Buildings	\$ 10,256,698	\$ -	\$ -	\$ 10,256,698
Land improvements	242,912	-	-	242,912
Machinery, furniture, and equipment	5,834,157	1,150,430	257,618	6,726,969
Infrastructure	50,463,416	5,112,278	-	55,575,694
Total capital assets depreciated	\$ 66,797,183	\$ 6,262,708	\$ 257,618	\$ 72,802,273

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

4. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 2,365,312	\$ 188,228	\$ -	\$ 2,553,540
Land improvements	56,920	11,105	-	68,025
Machinery, furniture, and equipment	2,934,688	483,505	257,618	3,160,575
Infrastructure	14,226,460	1,111,513	-	15,337,973
	<u>\$ 19,583,380</u>	<u>\$ 1,794,351</u>	<u>\$ 257,618</u>	<u>\$ 21,120,113</u>
Total accumulated depreciation				
Total capital assets depreciated, net	<u>\$ 47,213,803</u>	<u>\$ 4,468,357</u>	<u>\$ -</u>	<u>\$ 51,682,160</u>
Capital Assets, Net	<u>\$ 49,983,741</u>	<u>\$ 4,921,811</u>	<u>\$ 990,156</u>	<u>\$ 53,915,396</u>

Construction in progress consists of amounts completed on an open road project.

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

Governmental Activities	
General government	\$ 263,208
Culture and recreation	58,891
Public safety	94,356
Highways and streets (including depreciation of infrastructure assets)	1,340,493
Sanitation	<u>37,403</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,794,351</u>

B. Interfund Receivables, Payables, and Transfers

Interfund Transfers

Interfund transfers for the year ended December 31, 2013, consisted of the following:

Transfer from General Fund to Debt Service Fund	<u>\$ 57,000</u>	Provide funding
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**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2013, were as follows:

	Primary Government
Accounts	\$ 218,059
Salaries	164,737
Contracts	361,888
Due to other governments	78,510
Total Payables	\$ 823,194

2. Capital Leases

Rock County entered into a lease for the HVAC system which qualified as a capital lease for accounting purposes. Final payment on the HVAC system was made during 2013 from the General Fund.

3. Long-Term Debt

Bonds Payable

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

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2013
Special assessment bonds with government commitment					
2010 G.O. Ditch Bonds	2021	\$70,000 - \$85,000	1.25 - 3.50	\$ 750,000	\$ 610,000
Less: unamortized discounts					(3,827)
Special Assessment Bonds with Government Commitment, Net					\$ 606,173

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt

Bonds Payable (Continued)

<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, 2013</u>
General obligation bonds					
2012 G.O. Bond, Series 2012A	2026	\$110,000 - \$270,000	2.00 - 2.40	\$ 2,640,000	\$ 2,640,000
2005 G.O. Capital Improvement Bonds	2026	\$45,000 - \$125,000	2.90 - 4.30	<u>1,750,000</u>	<u>1,285,000</u>
Total general obligation bonds				<u>\$ 4,390,000</u>	\$ 3,925,000
Add: unamortized premium					59,879
Less: unamortized discounts					<u>(18,122)</u>
Total General Obligation Bonds, Net					<u>\$ 3,966,757</u>

Loans Payable

In 2010, the County agreed to act as loan and project sponsor for a loan agreement made under the Clean Water Partnership (CWP) Law with the State of Minnesota through its Pollution Control Agency. The County makes loans to residents to be used for the control and abatement of water pollution. Loans are secured by special assessments placed on the individual parcels requesting funding of a project. Loan payments are reported in the Land Management Special Revenue Fund.

On August 14, 2012, the County Board was notified that Rock County would be the loan recipient of USDA RED-G proceeds of \$360,000 from the Lismore Telephone Cooperative. Lismore Telephone Cooperative will retain the loan repayment proceeds from Rock County as a Revolving Loan Fund for future economic development projects. The loan proceeds were received by the County on May 30, 2013, and used to purchase a Motor Grader for the Highway Department. The loan is to be repaid over ten years at an interest rate of 1.375 percent.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt

Loans Payable (Continued)

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Semi-Annual Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2013</u>
Loans payable					
Rock River Clean Water Partnership	2023	\$18,000	2.000	\$ 162,471	\$ 155,092
Rock River Clean Water Partnership Phase II	-	-	-	34,966	34,966
Lismore Telephone Company	2023	\$36,000	1.375	360,000	344,581
Total Loans Payable				<u>\$ 557,437</u>	<u>\$ 534,639</u>

4. Debt Service Requirements

Payments on General Obligation Bonds are made by the Debt Service Fund. Special Assessment Bonds are made by the Ditch Special Revenue Fund. Debt service requirements at December 31, 2013, were as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>		<u>Special Assessment Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 1,430,000	\$ 52,600	\$ 70,000	\$ 17,038
2015	240,000	48,750	70,000	15,638
2016	245,000	43,900	75,000	13,906
2017	245,000	39,000	75,000	11,844
2018	255,000	34,000	75,000	9,594
2019 - 2023	1,170,000	92,967	245,000	12,938
2024 - 2026	340,000	12,223	-	-
Total	<u>\$ 3,925,000</u>	<u>\$ 323,440</u>	<u>\$ 610,000</u>	<u>\$ 80,958</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

Debt payments on the loans payable are made from the General Fund. Debt service requirements at December 31, 2013, were as follows:

Year Ending December 31	Loans Payable	
	Principal	Interest
2014	\$ 46,439	\$ 7,568
2015	47,176	6,831
2016	47,924	6,083
2017	48,685	5,322
2018	49,458	4,549
2019 - 2023	259,991	10,555
Total	\$ 499,673	\$ 40,908

Loans of \$34,966 for Rock River Clean Water Partnership Phase II are not included in the debt service requirements because a fixed repayment schedule is not yet available.

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds payable	\$ 4,000,000	\$ -	\$ 75,000	\$ 3,925,000	\$ 1,430,000
Add: unamortized premiums	64,485	-	4,606	59,879	-
Less: unamortized discounts	(19,653)	-	(1,531)	(18,122)	-
General obligation bonds, net	\$ 4,044,832	\$ -	\$ 78,075	\$ 3,966,757	\$ 1,430,000

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Changes in Long-Term Liabilities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Special assessment bonds with government commitment	\$ 680,000	\$ -	\$ 70,000	\$ 610,000	\$ 70,000
Less: unamortized discounts	(4,464)	-	(637)	(3,827)	-
Special assessment bonds with government commitment, net	\$ 675,536	\$ -	\$ 69,363	\$ 606,173	\$ 70,000
Total bonds payable	\$ 4,720,368	\$ -	\$ 147,438	\$ 4,572,930	\$ 1,500,000
Capital leases	43,592	-	43,592	-	-
Loans payable	156,681	400,756	22,798	534,639	46,439
Compensated absences	335,574	294,350	288,364	341,560	43,385
Net OPEB obligation	85,636	43,880	25,258	104,258	-
Governmental Activities Long-Term Liabilities	\$ 5,341,851	\$ 738,986	\$ 527,450	\$ 5,553,387	\$ 1,589,824

6. Crossover Refunding Debt

In 2012, Rock County issued General Obligation Refunding Bonds, Series 2012A, in the amount of \$2,640,000 with interest rates of 2.00 percent to 2.40 percent to provide capital equipment financing (\$1,400,000) and to crossover refund the General Obligation Capital Improvement Bond, dated November 1, 2005, maturing after February 1, 2014. The balance of the outstanding maturities to be refunded is \$1,205,000, and interest rates are 3.75 percent to 4.30 percent.

The General Obligation Crossover Refunding Bonds, Series 2012A, were issued at a premium of \$25,571, and after paying debt issuance cost of \$30,296, the net proceeds were \$1,246,579. This amount was used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide partial interest payments on the General Obligation Crossover Refunding Bonds, Series 2012A, until February 1, 2014, at which time the refunded bonds will be paid off. The principal balance of both the original issue and the refunding issued will be shown on the statement of net position until the call date of the refunded bonds, at which time the 2005 bonds will be paid, and the liability for those bonds will be removed.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Crossover Refunding Debt (Continued)

As a result of the crossover refunding, the County reduced its total debt service requirements by \$122,593, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt service) of \$107,383.

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).

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.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

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

Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. 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 remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service.

For General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for 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.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

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 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent.

The County is required to contribute the following percentages of annual covered payroll in 2013:

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

The County's contributions for the years ending December 31, 2013, 2012, and 2011, for the General Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
General Employees Retirement Fund	\$ 193,995	\$ 191,975	\$ 250,109
Public Employees Police and Fire Fund	91,851	89,425	88,696

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

Six of the elected officials 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. 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, 2013, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 1,904	\$ 1,904
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

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

The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2014, there were approximately 80 participants of the County in the plan, including 2 retirees. The implicit rate subsidy amount was determined by an actuary study to be \$26,608 for 2013 (\$25,258 for the County and \$1,350 for the Rock County Rural Water District).

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	\$	45,340
Interest on net OPEB obligation		3,853
Adjustment to ARC		<u>(5,313)</u>
Annual OPEB cost (expense)	\$	43,880
Contributions made during the year		<u>(25,258)</u>
Increase in net OPEB obligation	\$	18,622
Net OPEB Obligation - Beginning of Year		<u>85,636</u>
Net OPEB Obligation - End of Year	\$	<u>104,258</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, 2011, 2012, and 2013, 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, 2011	\$ 66,610	\$ 55,364	83.12%	\$ 66,395
December 31, 2012	43,338	24,097	55.60	85,636
December 31, 2013	43,880	25,258	57.56	104,258

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, Rock County had no assets to fund the plan. The actuarial accrued liability for benefits was \$399,473, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$399,473. The covered payroll (annual payroll of active employees covered by the plan) was \$3,636,645, and the ratio of the UAAL to the covered payroll was 11.0 percent.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, 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)

Actuarial Methods and Assumptions (Continued)

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, 2012, 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 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 6 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, 2013, was 24 years.

5. Risk Management

Rock 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. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. 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 \$470,000 per claim in 2013 and \$480,000 in 2014. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

6. Summary of Significant Contingencies and Other Items

A. Subsequent Events

In June 2014, the County Board issued \$3,970,000 General Obligation Capital Improvement Bonds, Series 2014A.

B. Contingent Liabilities

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

The County is currently involved in a class action lawsuit that was filed on November 27, 2012, involving misuse of driver's license files. This lawsuit may exceed MCIT coverage of \$2,000,000. This includes \$200,000 in coverage for those that opt out of the class and \$1,800,000 for the class action lawsuit. The settlement has not yet been approved by a federal judge.

The County, in conjunction with the normal conduct of its affairs, is involved in various other claims, judgments, and litigation. 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, 2013, the Lincoln-Pipestone Rural Water System had \$34,037,102 of general obligation bonds outstanding through 2052. 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
LUVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities

Lincoln-Pipestone Rural Water System (Continued)

In 2013, Lincoln County and Nobles County issued General Obligation Water System Refunding Bonds, Series 2013A, for \$3,055,000 and \$2,910,000, respectively, on behalf of the Lincoln-Pipestone Rural Water System to advance refund the General Obligation Water System Refunding Bonds, Series 2005 and 2007.

C. Joint Ventures

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

Southwest Health and Human Services

Southwest Health and Human Services (SWHHS) was formed pursuant to Minn. Stat. ch. 145A and §§ 471.59 and 393.01, subd. 7, by Lincoln, Lyon, Murray, and Pipestone Counties. SWHHS began official operation on January 1, 2011, and performs human service and public health functions. Funding is provided by the member counties based upon consideration of: (1) population based on the most recent national census; (2) tax capacity; and (3) the most recent three-year average Social Services Expenditure and Grant Reconciliation Report (SEAGR), each factor to be weighted equally.

In 2011, Rock County petitioned to join SWHHS. Rock County's health and human services functions were assumed by SWHHS as of January 1, 2012. In 2012, Redwood County and Pipestone County petitioned to join SWHHS. Redwood County's health and human service functions and Pipestone County's human service function joined SWHHS as of January 1, 2013.

SWHHS is governed by the:

- Joint Health and Human Services Board ("Joint Board") - responsible for financial, personnel, budget and general administration of the agency as is made up of one County Commissioner (or alternate) from each County serving on the Community Health Board; and one County Commissioner (or alternate) serving on the Human Services Board.

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Health and Human Services (Continued)

- Human Services Board - responsible for duties set forth in Minn. Stat. ch. 393 and made up of two County Commissioners appointed annually and one layperson to be appointed consistent with the requirement of the Commissioner of Human Services.
- Community Health Board - responsible for all duties set forth in Minn. Stat. ch. 145A and made up of one County Commissioner and one alternate from each member county unless such county shall have a population in excess of twice that of any other member county, in which case it shall have two Commissioners and two alternates.

Financing is provided by state and federal grants and appropriations from member counties. Rock County's contribution in 2013 was \$1,121,454.

Complete financial statements of Southwest Health and Human Services can be obtained at 607 West Main, Marshall, Minnesota 56258.

Lincoln-Pipestone Rural Water System

Rock County, along with Jackson, 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 Rural Water 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 a Board appointed by the District Court. The Rural Water System's Board is solely responsible for the budgeting and financing of the Rural Water System.

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

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, 2013, were \$34,037,102.

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.

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 contribution to Rock Nobles Community Corrections for the year ended December 31, 2013, was \$62,475.

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Rock Nobles Community Corrections (Continued)

Complete financial statements of Rock Nobles Community Corrections can be obtained at the Rock County Courthouse, 204 East Brown Street, P. O. Box 509, Luverne, Minnesota 56156-0509

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

Financing is provided by the appropriations from member parties and by state and federal grants. During 2013, Rock County contributed \$2,635 to the Joint Powers Board.

Southwest Regional Solid Waste Commission

Rock County has entered into a joint powers agreement with 11 other counties to create and operate the Southwest Regional Solid Waste Commission under the authority of Minn. Stat. § 471.59. The Commission was formed to exercise the County's authority

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Regional Solid Waste Commission (Continued)

and obligation pursuant to Minn. Stat. chs. 400 and 115A, to provide for the management of solid waste in the respective counties; and provide the greatest public service benefit possible for the entire contiguous 12-county area encompassed by the counties in planning, management, and implementation of methods to deal with solid waste in southwest Minnesota.

The governing board is composed of one Board member from each of the participating counties. Financing the Commission's solid waste management program is through appropriations from the participating counties, grants and loans from the Minnesota Office of Waste Management, or from the sale of bonds or other obligations secured by revenues of the Commission. Administration and planning costs of the Commission are assessed to the counties on equal shares up to \$1,000 per county per year. The current assessment is \$500.

The Commission is headquartered in Ivanhoe, Minnesota, where Lincoln County acts as fiscal host. A complete financial report of the Southwest Regional Solid Waste Commission can be obtained from the Lincoln County Auditor at 319 N. Rebecca Street, P.O. Box 29, Ivanhoe, Minnesota 56142.

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 2013, Rock County contributed \$13,756 to the SW-RSVP.

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Buffalo Ridge Drug Task Force

The Buffalo Ridge Drug Task Force was established under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Murray, Nobles, Pipestone, and Rock Counties and the Cities of Adrian, Fulda, Slayton, and Worthington. The Drug Task Force provides drug enforcement services for member organizations.

Control of the Task Force is vested in a Board of Directors. The Board of Directors consists of the Chiefs of Police and Sheriff from each party.

Fiscal agent responsibilities for the Task Force are with the City of Worthington. During the year, Rock County did not make any payments to the Task Force.

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**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Southern Prairie Health Purchasing Alliance

Rock County entered into a joint powers agreement on June 26, 2012, with Swift, Chippewa, Kandiyohi, Redwood, Lyon, Lincoln, Murray, Cottonwood, Jackson, Nobles, and Yellow Medicine Counties to establish the Southern Prairie Health Purchasing Alliance pursuant to the provisions of Minn. Stat. § 471.59. The purpose of the Alliance is to plan, formulate, operate, and govern a rural care delivery system to improve the health and quality of life of the citizens of member counties. The Joint Powers Board is composed of one representative from each county.

Southwest Minnesota Private Industry Council, Inc.

The Southwest Minnesota Private Industry Council, Inc., (SW MN PIC) is a private nonprofit corporation which was created through a Joint Powers Agreement on October 1, 1983, and began operations in 1985 under the Job Training Partnership Act (JTPA) authorized by Congress to administer and operate job training programs in a 14-county area of southwestern Minnesota. These counties include Big Stone, Chippewa, Cottonwood, Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, Swift, and Yellow Medicine.

SW MN PIC is governed by the Chief Elected Official Board which is composed of one representative from each member county. Rock County did not make any payments to this organization in 2013. Separate financial information can be obtained from the Lyon County Government Center, 607 West Main Street, Marshall, Minnesota 56258.

Southwestern Mental Health Center, Inc.

The Southwestern Mental Health Center, Inc., is a private, non-profit agency established in 1959 by Cottonwood, Jackson, Nobles, Pipestone, and Rock Counties in southwest Minnesota. It was formed for the purpose of providing mental health services and programs to the residents of these counties.

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwestern Mental Health Center, Inc. (Continued)

For 2013, Rock County did not make any payments to Southwestern Mental Health Center, Inc. for mental health services. Complete financial statements for the Southwestern Mental Health Center, Inc. can be obtained at 216 E. Luverne, Street, Luverne, Minnesota 56156.

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the Southwestern Minnesota Adult Mental Health Consortium Board was created under the authority of Minn. Stat. § 471.59. Presently, its members include Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Renville, Swift, and Yellow Medicine Counties; and Southwest Health and Human Services representing Lincoln, Lyon, Murray, Pipestone, Redwood and Rock Counties. 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 necessary to plan and develop within the Southwestern Minnesota Adult Mental Health Consortium Board's geographic jurisdiction, a system of care that serves 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.

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.

**ROCK COUNTY
LIVERNE, MINNESOTA**

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

D. Jointly-Governed Organizations

Region Five - Southwest Minnesota Homeland Security Emergency Management Organization

The Region Five - Southwest Minnesota Security Emergency Management Organization (SWRHSEM) was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the SWRHSEM region. Control is vested in the Board, which is composed of representatives appointed by each Board of County Commissioners. Rock County's responsibility does not extend beyond making this appointment.

Kanaranzi-Little Rock Watershed District

The Kanaranzi-Little Rock Watershed District was established for the primary purpose of conserving natural resources within the watershed. 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.

Minnesota Counties Computer Cooperative (MCCC)

Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created MCCC to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, Rock County did not make any payments to the MCCC.

Minnesota Criminal Justice Data Communications Network

The Minnesota Criminal Justice Data Communications Network Joint Powers Agreement exists to create access for the County Sheriff and County Attorney to systems and tools available from the State of Minnesota, Department of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. During the year, the County made no payments to the joint powers.

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Rock-Pipestone Family Service Collaborative

The Rock-Pipestone Family Service Collaborative was established December 9, 2004, pursuant to Minn. Stat. §§ 471.59 and 124D.23. The purpose of the Collaborative is to provide an interagency approach to providing child and family services. The management of the Rock-Pipestone Family Services Collaborative is vested in a Governing Board composed of 16 members. Each member appoints its representative for a one-year term. No single member party retains control over the operations or has oversight responsibility for the Collaborative. Rock County acts as fiscal agent for the Rock-Pipestone Family Services Collaborative and reports the fiscal transactions of the Collaborative as an agency fund. The County did not contribute to the Collaborative in 2013.

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The purpose of the Board is to provide policy guidance on issues surrounding energy development in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use. During 2013, Rock County paid \$2,000 to the Board.

Sentence to Service

Rock County, in conjunction with other local governments, participates in the State of Minnesota's Sentence to Serve (STS) program. STS is a project of the State Department of Administration's Strive Toward Excellence in Performance (STEP) program. STEP's goal is a statewide effort to make positive improvements in public services. It gives the courts an alternative to jail or fines for the nonviolent offenders who can work on a variety of community or state projects. Private funding, funds from various foundations and initiative funds, as well as the Minnesota Departments of Corrections and Natural Resources, provide the funds needed to operate the STS program. Rock County has no operational or financial control over the STS program and does not budget for this program.

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Southwest Minnesota Immunization Information Connection

The Southwest Minnesota Immunization Information Connection (SW-MIIC) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. The County did not contribute to the SW-MIIC during 2013.

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.

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Measurement Focus and 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. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

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, 2013, based on market prices. Pooled investment earnings for 2013 were \$591.

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). The investment in the pool is measured at the net asset value per share provided by the pool.

Rock County is holding short-term investments of the District. These certificates of deposit are for future expenditures on the distribution system and any other related expenditures. The total held by the County for the District was \$1,175,000 at December 31.

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures (Continued)

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	\$ 518,697
Investments	1,036,506
Investments - restricted	<u>1,175,000</u>
Total Deposits and Investments	<u>\$ 2,730,203</u>

Petty cash and change funds	\$ 75
Checking	503,716
Savings	14,906
Certificates of deposit	<u>2,211,506</u>
Total Deposits and Investments	<u>\$ 2,730,203</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. Rock County's policy is to minimize deposit custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2013, the County's deposits were not exposed to custodial credit risk.

**ROCK COUNTY
LUVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

1. Assets (Continued)

Receivables

Receivables as of December 31, 2013, for the Rock County Rural Water District are as follows:

	Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Interest Receivable	\$ 22,239	\$ -
Special Assessments - Restricted	\$ 342,325	\$ 301,249

Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land and right-of-way	\$ 106,587	\$ -	\$ -	\$ 106,587
Lewis and Clark project	632,123	-	-	632,123
Expansion project	21,704	-	-	21,704
Total capital assets not depreciated	\$ 760,414	\$ -	\$ -	\$ 760,414
Capital assets depreciated				
Buildings and pumps	\$ 2,907,106	\$ 156,005	\$ -	\$ 3,063,111
Land improvements	11,649	-	-	11,649
Machinery, furniture, and equipment	327,966	57,964	30,165	355,765
Infrastructure - distribution system	4,074,850	42,376	-	4,117,226
Total capital assets depreciated	\$ 7,321,571	\$ 256,345	\$ 30,165	\$ 7,547,751

**ROCK COUNTY
LUVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

1. Assets

Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings and pumps	\$ 1,607,141	\$ 77,197	\$ -	\$ 1,684,338
Land improvements	1,249	291	-	1,540
Machinery, furniture, and equipment	120,910	28,115	28,851	120,174
Infrastructure - distribution system	2,183,911	105,860	-	2,289,771
Total accumulated depreciation	\$ 3,913,211	\$ 211,463	\$ 28,851	\$ 4,095,823
Total capital assets depreciated, net	\$ 3,408,360	\$ 44,882	\$ 1,314	\$ 3,451,928
Capital Assets, Net	\$ 4,168,774	\$ 44,882	\$ 1,314	\$ 4,212,342

Depreciation expense for 2013 was \$211,463.

2. Liabilities

Payables

Payables at December 31, 2013, were as follows:

Accounts	\$ 36,869
Salaries	10,853
Total Payables	\$ 47,722

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.

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

2. Liabilities

Long-Term Debt (Continued)

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, 2013
General obligation notes					
2000 G.O. Revenue Note	2019	\$14,000 - \$89,000	1.79	\$ 1,460,000	\$ 510,000
2007 G.O. Revenue Note	2026	\$16,000 - \$31,000	1.02	<u>533,000</u>	<u>383,000</u>
Total General Obligation Notes				<u>\$ 1,993,000</u>	<u>\$ 893,000</u>

Debt Service Requirements

Debt service requirements at December 31, 2013, were as follows:

Year Ending December 31	General Obligation Revenue Note 2000		General Obligation Revenue Note 2007	
	Principal	Interest	Principal	Interest
2014	\$ 81,000	\$ 9,129	\$ 28,000	\$ 3,907
2015	83,000	7,679	28,000	3,621
2016	84,000	6,193	28,000	3,335
2017	86,000	4,690	29,000	3,050
2018	87,000	3,150	29,000	2,754
2019 - 2023	89,000	1,593	148,000	9,302
2024 - 2026	-	-	<u>93,000</u>	<u>1,897</u>
Total	<u>\$ 510,000</u>	<u>\$ 32,434</u>	<u>\$ 383,000</u>	<u>\$ 27,866</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

2. Liabilities (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. revenue note 2000	\$ 590,000	\$ -	\$ 80,000	\$ 510,000	\$ 81,000
G.O. revenue note 2007	410,000	-	27,000	383,000	28,000
Total G.O. revenue notes	\$ 1,000,000	\$ -	\$ 107,000	\$ 893,000	\$ 109,000
Compensated absences	21,962	19,520	24,684	16,798	1,730
Net OPEB obligation	1,217	733	1,350	600	-
Total Long-Term Liabilities	\$ 1,023,179	\$ 20,253	\$ 133,034	\$ 910,398	\$ 110,730

C. Pension Plans

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

The Rock County Rural Water District's contributions for the years ending December 31, 2013, 2012, and 2011 were \$14,549, \$13,278, and \$7,612, respectively. These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures (Continued)

D. Other Postemployment Benefits

The Rock County Rural Water District provides a single-employer defined health care plan to eligible retirees and their spouses as described in Note 4 herein.

The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employee, 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 District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan.

ARC	\$	754
Interest on net OPEB obligation		55
Adjustment to ARC		(76)
		(76)
Annual OPEB cost (expense)	\$	733
Contributions made		(1,350)
		(1,350)
Increase (decrease) in net OPEB obligation	\$	(617)
Net OPEB Obligation - Beginning of Year		1,217
		1,217
Net OPEB Obligation - End of Year	\$	600

The District'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, 2013 and 2012, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2012	\$ 1,655	\$ 438	26.47%	\$ 1,217
December 31, 2013	733	1,350	184.17	600

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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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,516,777	\$ 2,516,777	\$ 2,538,935	\$ 22,158
Licenses and permits	4,500	4,500	12,680	8,180
Intergovernmental	460,086	460,086	826,378	366,292
Charges for services	1,271,100	1,271,100	1,293,397	22,297
Fines and forfeits	2,500	2,500	23,024	20,524
Gifts and contributions	-	-	42,153	42,153
Investment earnings	70,000	70,000	35,732	(34,268)
Miscellaneous	177,310	177,310	238,940	61,630
Total Revenues	\$ 4,502,273	\$ 4,502,273	\$ 5,011,239	\$ 508,966
Expenditures				
Current				
General government				
Commissioners	\$ 298,124	\$ 298,124	\$ 247,167	\$ 50,957
District Court	-	-	44,531	(44,531)
Law library	-	-	8,627	(8,627)
County administration	185,905	149,278	153,990	(4,712)
Auditor-Treasurer	305,249	305,249	293,686	11,563
Elections	25,000	25,000	7,703	17,297
Accounting and auditing	45,000	45,000	23,932	21,068
Data processing	184,166	184,166	186,884	(2,718)
Attorney	167,862	167,862	166,676	1,186
Land records	363,192	363,192	362,884	308
Recorder's technology	23,500	23,500	50,651	(27,151)
Buildings and plant	246,524	246,524	284,969	(38,445)
Veterans service officer	30,406	30,406	29,722	684
Transportation	325,500	325,500	419,413	(93,913)
Heartland building	-	-	7,313	(7,313)
Other general government	12,191	12,191	11,095	1,096
Total general government	\$ 2,212,619	\$ 2,175,992	\$ 2,299,243	\$ (123,251)
Public safety				
Sheriff	\$ 1,599,793	\$ 1,599,793	\$ 1,634,975	\$ (35,182)
Coroner	10,000	10,000	12,299	(2,299)
E-911 system	-	-	59,232	(59,232)
Prisoner care	91,000	91,000	80,919	10,081
Emergency services	-	36,627	60,205	(23,578)
Total public safety	\$ 1,700,793	\$ 1,737,420	\$ 1,847,630	\$ (110,210)

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

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**ROCK COUNTY
LIVERNE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Health				
Community health	\$ 16,800	\$ 16,800	\$ 16,800	\$ -
Culture and recreation				
Historical society	\$ 10,000	\$ 10,000	\$ 12,057	\$ (2,057)
Minnesota trails	-	-	22,079	(22,079)
Senior citizens	26,204	26,204	18,956	7,248
Library	256,208	256,208	256,583	(375)
Heritage museum	34,750	34,750	29,211	5,539
Library donations	-	-	6,264	(6,264)
Children's library books	-	-	5,352	(5,352)
Other	5,920	5,920	5,920	-
Total culture and recreation	\$ 333,082	\$ 333,082	\$ 356,422	\$ (23,340)
Conservation of natural resources				
Extension	\$ 125,987	\$ 125,987	\$ 114,009	\$ 11,978
Agricultural society	16,000	16,000	16,000	-
Total conservation of natural resources	\$ 141,987	\$ 141,987	\$ 130,009	\$ 11,978
Economic development				
Tourism	\$ 1,940	\$ 1,940	\$ 1,940	\$ -
Intergovernmental				
Health	\$ 62,475	\$ 62,475	\$ 87,796	\$ (25,321)
Library	60,544	60,544	58,122	2,422
Total intergovernmental	\$ 123,019	\$ 123,019	\$ 145,918	\$ (22,899)
Capital outlay				
General government	\$ -	\$ -	\$ 31,645	\$ (31,645)
Public safety	-	-	154,771	(154,771)
Highways and streets	-	-	606,596	(606,596)
Total capital outlay	\$ -	\$ -	\$ 793,012	\$ (793,012)

**ROCK COUNTY
LUVERNE, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Debt service				
Interest	\$ 43,593	\$ 43,593	\$ 43,592	\$ 1
Administrative (fiscal) charges	1,940	1,940	34,753	(32,813)
Total debt service	\$ 45,533	\$ 45,533	\$ 78,345	\$ (32,812)
Total Expenditures	\$ 4,575,773	\$ 4,575,773	\$ 5,669,319	\$ (1,093,546)
Excess of Revenues Over (Under)				
Expenditures	\$ (73,500)	\$ (73,500)	\$ (658,080)	\$ (584,580)
Other Financing Sources (Uses)				
Transfers in	\$ 60,000	\$ -	\$ -	\$ -
Transfers out	-	-	(57,000)	(57,000)
Proceeds from Lismore Telephone Company Loan	-	-	360,000	360,000
Proceeds from the sale of capital assets	13,500	13,500	5,786	(7,714)
Total Other Financing Sources (Uses)	\$ 73,500	\$ 13,500	\$ 308,786	\$ 295,286
Net Change in Fund Balance	\$ -	\$ (60,000)	\$ (349,294)	\$ (289,294)
Fund Balance - January 1	6,220,784	6,220,784	6,220,784	-
Fund Balance - December 31	\$ 6,220,784	\$ 6,160,784	\$ 5,871,490	\$ (289,294)

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
PUBLIC WORKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 796,111	\$ 796,111	\$ 784,991	\$ (11,120)
Intergovernmental	1,149,369	1,149,369	6,297,316	5,147,947
Charges for services	387,375	387,375	589,065	201,690
Investment earnings	20,000	20,000	4,145	(15,855)
Miscellaneous	5,500	5,500	57,874	52,374
Total Revenues	\$ 2,358,355	\$ 2,358,355	\$ 7,733,391	\$ 5,375,036
Expenditures				
Current				
Highways and streets				
Administration	\$ 244,160	\$ 244,160	\$ 226,763	\$ 17,397
Maintenance	876,682	876,682	866,624	10,058
Construction	259,696	259,696	5,568,217	(5,308,521)
Equipment and maintenance shops	556,583	556,583	610,646	(54,063)
Material and services for resale	16,047	16,047	39,103	(23,056)
Other	104,859	104,859	82,020	22,839
Total highways and streets	\$ 2,058,027	\$ 2,058,027	\$ 7,393,373	\$ (5,335,346)
Sanitation				
Solid waste	\$ 240,328	\$ 288,285	\$ 426,457	\$ (138,172)
Intergovernmental				
Highways and streets	\$ -	\$ -	\$ 274,153	\$ (274,153)
Total Expenditures	\$ 2,298,355	\$ 2,346,312	\$ 8,093,983	\$ (5,747,671)
Excess of Revenues Over (Under) Expenditures	\$ 60,000	\$ 12,043	\$ (360,592)	\$ (372,635)
Other Financing Sources (Uses)				
Transfers out	(60,000)	-	-	-
Net Change in Fund Balance	\$ -	\$ 12,043	\$ (360,592)	\$ (372,635)
Fund Balance - January 1	1,499,500	1,499,500	1,499,500	-
Increase (decrease) in inventories	-	-	(35,363)	(35,363)
Fund Balance - December 31	\$ 1,499,500	\$ 1,511,543	\$ 1,103,545	\$ (407,998)

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,090,403	\$ 1,090,403	\$ 1,064,658	\$ (25,745)
Intergovernmental	31,051	31,051	54,831	23,780
Miscellaneous	-	-	55	55
Total Revenues	<u>\$ 1,121,454</u>	<u>\$ 1,121,454</u>	<u>\$ 1,119,544</u>	<u>\$ (1,910)</u>
Expenditures				
Intergovernmental				
Human Services	\$ 1,121,454	\$ 1,121,454	\$ 1,121,454	\$ -
Miscellaneous	-	-	4,609	(4,609)
Total Expenditures	<u>\$ 1,121,454</u>	<u>\$ 1,121,454</u>	<u>\$ 1,126,063</u>	<u>\$ (4,609)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,519)</u>	<u>\$ (6,519)</u>
Fund Balance - January 1	<u>264,492</u>	<u>264,492</u>	<u>264,492</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 264,492</u></u>	<u><u>\$ 264,492</u></u>	<u><u>\$ 257,973</u></u>	<u><u>\$ (6,519)</u></u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
LAND MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 25,197	\$ 25,197	\$ 25,460	\$ 263
Special assessments	209,306	209,306	212,298	2,992
Licenses and permits	36,258	36,258	29,938	(6,320)
Intergovernmental	180,763	180,763	220,430	39,667
Charges for services	2,875	2,875	2,127	(748)
Investment earnings	-	-	38	38
Miscellaneous	10,538	10,538	20,990	10,452
Total Revenues	\$ 464,937	\$ 464,937	\$ 511,281	\$ 46,344
Expenditures				
Current				
General government				
Planning and zoning	\$ 40,426	\$ 40,426	\$ 40,326	\$ 100
Sanitation				
Solid waste	\$ 47,957	\$ -	\$ 2,328	\$ (2,328)
Recycling	95,537	95,537	129,478	(33,941)
Hazardous waste	27,426	27,426	26,263	1,163
Environmental office	169,247	169,247	166,790	2,457
Total sanitation	\$ 340,167	\$ 292,210	\$ 324,859	\$ (32,649)
Conservation of natural resources				
Agricultural inspection	\$ 11,742	\$ 11,742	\$ 10,996	\$ 746
Water planning	153,606	153,606	160,794	(7,188)
Total conservation of natural resources	\$ 165,348	\$ 165,348	\$ 171,790	\$ (6,442)
Debt service				
Principal	\$ -	\$ -	\$ 7,379	\$ (7,379)
Interest	-	-	1,625	(1,625)
Total debt service	\$ -	\$ -	\$ 9,004	\$ (9,004)
Total Expenditures	\$ 545,941	\$ 497,984	\$ 545,979	\$ (47,995)

**ROCK COUNTY
LUVERNE, MINNESOTA**

***EXHIBIT A-4
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
LAND MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<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	\$ (81,004)	\$ (33,047)	\$ (34,698)	\$ (1,651)
Other Financing Sources (Uses)				
Loans issued	-	-	34,966	34,966
Net Change in Fund Balance	\$ (81,004)	\$ (33,047)	\$ 268	\$ 33,315
Fund Balance - January 1	<u>885,811</u>	<u>885,811</u>	<u>885,811</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 804,807</u>	<u>\$ 852,764</u>	<u>\$ 886,079</u>	<u>\$ 33,315</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT A-5

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 94,040	\$ 94,040	\$ 84,133	\$ (9,907)
Expenditures				
Debt service				
Principal	\$ 70,000	\$ 70,000	\$ 70,000	\$ -
Interest	24,040	24,040	18,175	5,865
Administrative (fiscal) charges	-	-	425	(425)
Total Expenditures	\$ 94,040	\$ 94,040	\$ 88,600	\$ 5,440
Net Change in Fund Balance	\$ -	\$ -	\$ (4,467)	\$ (4,467)
Fund Balance - January 1	310,009	310,009	310,009	-
Fund Balance - December 31	\$ 310,009	\$ 310,009	\$ 305,542	\$ (4,467)

**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT A-6

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2013

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%
January 1, 2012	-	399,473	399,473	0.0	3,636,645	11.0

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**ROCK COUNTY
LIVERNE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2013

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, Ditch Special Revenue Fund, and the Debt Service Fund. The expenditure budget is approved at the fund level.

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

Expenditure budgets were amended in the following funds:

	<u>Original Budget</u>	<u>Increase (Decrease)</u>	<u>Final Budget</u>
Public Works Special Revenue Fund	\$ 2,298,355	\$ 47,957	\$ 2,346,312
Land Management Special Revenue Fund	545,941	(47,957)	497,984

The amendments were made to move the expense of the Transfer Station Operator salary from the Land Management Transfer Station Department to the Public Works Transfer Station Department.

Other financing sources/(uses) budgets were amended in the following funds:

	<u>Original Budget</u>	<u>Increase (Decrease)</u>	<u>Final Budget</u>
General Fund	\$ 73,500	\$ (60,000)	\$ (13,500)
Public Works Special Revenue Fund	(60,000)	60,000	-

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Budget Amendments (Continued)

The amendments were made to eliminate an interfund transfer from the Public Works Transfer Station Department to the General Fund.

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 5,669,319	\$ 4,575,773	\$ 1,093,546
Special Revenue Funds			
Public Works	8,093,983	2,346,312	5,747,671
Family Services	1,126,063	1,121,454	4,609
Land Management	545,979	497,984	47,995

5. Other Postemployment Benefits - Funding Status

Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the accrued liability for postemployment benefits is zero. Currently, only two actuarial valuations are available. As the information becomes available, future reports will provide additional trend analysis to meet the three valuation funding status requirement.

See Note 4.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

6. Other Postemployment Benefits - Significant Plan Provision and Actuarial Assumption Changes

2012 Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality table was updated to reflect the projection of 2000 rates to 2012 based on scale BB.
- Future retirees electing to continue coverage on the County medical plan was reduced from 50 percent to 35 percent.

SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 311,293	\$ 311,293	\$ 303,687	\$ (7,606)
Intergovernmental	8,865	8,865	15,654	6,789
Total Revenues	\$ 320,158	\$ 320,158	\$ 319,341	\$ (817)
Expenditures				
Debt service				
Principal	\$ 75,000	\$ 75,000	\$ 90,419	\$ (15,419)
Interest	244,308	244,308	90,794	153,514
Administrative (fiscal) charges	850	850	685	165
Total Expenditures	\$ 320,158	\$ 320,158	\$ 181,898	\$ 138,260
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 137,443	\$ 137,443
Other Financing Sources (Uses)				
Transfers in	-	-	57,000	57,000
Net Change in Fund Balance	\$ -	\$ -	\$ 194,443	\$ 194,443
Fund Balance - January 1	162,511	162,511	162,511	-
Fund Balance - December 31	\$ 162,511	\$ 162,511	\$ 356,954	\$ 194,443

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**ROCK COUNTY
LUVERNE, MINNESOTA**

AGENCY FUNDS

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

Big Buddies - to account for the collection and disbursement of funds for the Big Buddies 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, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ROCK NOBLES COMMUNITY CORRECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 240,900</u>	<u>\$ 723,073</u>	<u>\$ 721,131</u>	<u>\$ 242,842</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 240,900</u>	<u>\$ 723,073</u>	<u>\$ 721,131</u>	<u>\$ 242,842</u>
 <u>BIG BUDDIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 7,055</u>	<u>\$ 2,945</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 7,055</u>	<u>\$ 2,945</u>
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 116,754</u>	<u>\$ 8,478,064</u>	<u>\$ 8,467,340</u>	<u>\$ 127,478</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 116,754</u>	<u>\$ 8,478,064</u>	<u>\$ 8,467,340</u>	<u>\$ 127,478</u>

**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, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 357,654</u>	<u>\$ 9,211,137</u>	<u>\$ 9,195,526</u>	<u>\$ 373,265</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 357,654</u>	<u>\$ 9,211,137</u>	<u>\$ 9,195,526</u>	<u>\$ 373,265</u>

OTHER SCHEDULES

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**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Shared Revenue

State

Highway users tax	\$ 3,683,814
County program aid	133,351
PERA rate reimbursement	15,088
Disparity reduction aid	12,381
Police aid	71,781
Enhanced 911	80,798
Market value credit - agriculture	89,743

Total shared revenue **\$ 4,086,956**

Payments

Local

Payments in lieu of taxes	\$ 49,123
Local contributions	37,260

Total payments **\$ 86,383**

Grants

State

Minnesota Department/Board of	
Natural Resources	22,079
Public Safety	100,321
Transportation	1,125,971
Water and Soil Resources	124,906
Veterans Affairs	7,500
Pollution Control Agency	55,950

Total state **\$ 1,436,727**

Federal

Department of	
Agriculture	\$ 3,035
Health and Human Services	14,597
Transportation	1,746,233
Homeland Security	40,678

Total federal **\$ 1,804,543**

Total state and federal grants **\$ 3,241,270**

Total Intergovernmental Revenue **\$ 7,414,609**

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Southwest Health and Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ <u>3,035</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,706,099
Formula Grants for Other Than Urbanized Areas	20.509	128,248
Passed Through City of Worthington Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	<u>1,893</u>
Total U.S. Department of Transportation		\$ <u>1,836,240</u>
U.S. Department of Health and Human Services		
Passed Through Southwest Health and Human Services Temporary Assistance for Needy Families	93.558	\$ 984
Child Support Enforcement	93.563	3,447
Foster Care - Title IV-E	93.658	700
Medical Assistance Program	93.778	<u>9,466</u>
Total U.S. Department of Health and Human Services		\$ <u>14,597</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	\$ 17,238
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	2,202
Passed Through Southwest Minnesota Regional Radio Board Homeland Security Grant Program	97.067	<u>21,238</u>
Total U.S. Department of Homeland Security		\$ <u>40,678</u>
Total Federal Awards		\$ <u><u>1,894,550</u></u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

1. Reporting Entity

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

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, 2013. 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 position, 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	\$ 1,804,543
Grants received more than 60 days after year-end, considered unavailable revenue in 2013	
Highway Planning and Construction (CFDA #20.205)	<u>90,007</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 1,894,550</u>

5. Subrecipients

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2013.

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ROCK COUNTY RURAL WATER DISTRICT

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**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT E-1

**ROCK COUNTY RURAL WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

Assets

Current assets

Cash and pooled investments	\$	518,697
Investments		1,036,506
Receivables		22,239
Inventories		124,456
Prepaid items		2,967
		2,967

Total current assets **\$ 1,704,865**

Restricted assets

Investments	\$	1,175,000
Receivables		342,325
		342,325

Total restricted assets **\$ 1,517,325**

Noncurrent assets

Capital assets		
Non-depreciable capital assets	\$	760,414
Depreciable capital assets - net of accumulated depreciation		3,451,928
		3,451,928

Total noncurrent liabilities **\$ 4,212,342**

Total Assets **\$ 7,434,532**

Liabilities

Current liabilities

Accounts payable and other current liabilities	\$	47,722
Accrued interest payable		4,345
Compensated absences		1,730
Customer deposits		133
Notes payable		109,000
		109,000

Total current liabilities **\$ 162,930**

Noncurrent liabilities

Compensated absences	\$	15,068
Notes payable		784,000
Net other postemployment benefits		600
		600

Total noncurrent liabilities **\$ 799,668**

Total Liabilities **\$ 962,598**

**ROCK COUNTY
LUVERNE, MINNESOTA**

***EXHIBIT E-1
(Continued)***

**ROCK COUNTY RURAL WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

Net Position

Net investment in capital assets	\$ 3,319,342
Restricted for repairs and upgrades to distribution system	1,517,325
Unrestricted	<u>1,635,267</u>
Total Net Position	<u>\$ 6,471,934</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT E-2

**ROCK COUNTY RURAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013**

Operating Revenues	
Charges for services	\$ 732,523
Miscellaneous	28,684
	<hr/>
Total Operating Revenues	\$ 761,207
Operating Expenses	
Personal services	\$ 257,850
Office expense	98,676
Operations	192,161
Materials	85,666
Utilities	83,524
Depreciation	211,463
	<hr/>
Total Operating Expenses	\$ 929,340
Operating Income (Loss)	\$ (168,133)
Nonoperating Revenues (Expenses)	
Interest on non-restricted investments	\$ 18,573
Interest on restricted investments	8,780
Interest on long-term debt	(14,174)
Lewis and Clark expense	(5,051)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 8,128
Income (Loss) Before Contributions	\$ (160,005)
Capital contributions	36,626
	<hr/>
Change in net position	\$ (123,379)
Net Position - January 1	6,595,313
	<hr/>
Net Position - December 31	\$ 6,471,934
	<hr/> <hr/>

**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT E-3

**ROCK COUNTY RURAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Cash Flows from Operating Activities	
Cash received from services	\$ 759,915
Cash paid to employees for services	(263,392)
Cash paid to suppliers for goods or services	<u>(461,727)</u>
Net cash provided by (used in) operating activities	<u>\$ 34,796</u>
Cash Flows from Non-Capital Financing Activities	
Lewis and Clark expenses	<u>\$ (6,314)</u>
Cash Flows from Capital and Related Financing Activities	
Payments of long-term debt	\$ (107,000)
Interest on long-term debt	(14,743)
Capital contributions/special assessments	82,873
Acquisition of capital assets	<u>(256,345)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (295,215)</u>
Cash Flows from Investing Activities	
Interest on non-restricted investments	\$ 18,539
Interest on restricted investments	8,512
Sale or (purchase) of non-restricted investments	<u>80,922</u>
Net cash provided by (used in) investing activities	<u>\$ 107,973</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (158,760)
Cash and Cash Equivalents at January 1	<u>677,457</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 518,697</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	<u>\$ (168,133)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 211,463
(Increase) decrease in inventories	(17,288)
(Increase) decrease in prepaid items	(57)
Increase (decrease) in accounts payable	14,596
Increase (decrease) in salaries payable and compensated absences	(3,876)
Increase (decrease) in net OPEB obligation	(617)
Increase (decrease) in customer deposits	<u>(1,292)</u>
Total Adjustments	<u>\$ 202,929</u>
Net Cash Provided by (Used In) Operating Activities	<u><u>\$ 34,796</u></u>

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**ROCK COUNTY
LUVERNE, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

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

The major program is:

Highway Planning and Construction

CFDA #20.205

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2005-001

Segregation of Duties

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

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

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

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

Cause: The County informed us that, due to the available resources, it would not be able to hire additional qualified accounting staff to segregate duties in every department.

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

Client's Response:

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

Finding 2011-001

Network/Application Password Controls

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

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

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

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

Cause: Rock County updated to a new web-based version of the IFS application software. Although County management was made aware of some of the password implications of this change during the previous audit, updates needed are not complete.

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

Client's Response:

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

PREVIOUSLY REPORTED ITEM RESOLVED

Audit Adjustments (2006-003)

During the 2012 audit, we identified material adjustments that resulted in significant changes to the County's financial statements.

Resolution

No material audit adjustments were proposed for the 2013 audit.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

Finding 2013-001

Cash Management

Program: U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205)

Pass-Through Agency: Minnesota Department of Transportation

Criteria: The Highway Planning and Construction Program awards funding on a reimbursement basis. The 2013 OMB Circular A-133 Compliance Supplement, Part 3 C., Cash Management, states that when entities are funded on a reimbursement basis, the costs for which reimbursement was requested should be paid prior to the date of the reimbursement request.

Condition: The County requested reimbursement from the pass-through agency for federal program expenditures before the costs for which reimbursement was requested were paid. In one of nine reimbursement requests tested, the costs were paid three days after receiving the federal funds, and in three of nine reimbursement requests tested, the costs were paid between the dates of the reimbursement request and the receipt of the federal funds.

Questioned Costs: None.

Context: The County followed the guidance in the State Aid for Local Transportation Delegated Contract Process (DCP) Checklist, issued by the pass-through agency Minnesota Department of Transportation (MnDOT), which states that a local public agency may request reimbursement after the expense has been incurred but prior to paying the contractor, provided that it has an approved payment process assuring the contractor is paid promptly upon receiving reimbursement of the Federal share. However, the standard contract language between the MnDOT and the County for the DCP also states that, following certification of partial and final pay estimates, the County will make the payments to the contractor and may request reimbursement for costs eligible for federal funds. The standard contract language also states the County will comply with OMB Circular A-133.

Technical assistance as to whether the process followed meets the requirements of the OMB Circular A-133 Compliance Supplement was requested. In response, we were informed that the Federal Highway Administration is preparing a position paper. The conclusion was not known at the time this report was issued.

Effect: Noncompliance with federal cash management requirements for a reimbursement grant program.

Cause: The County was relying on information, provided by the MnDOT, which was not in compliance with the federal requirement for cash management.

Recommendation: Unless federal guidance clearly provides otherwise, we recommend the County follow the requirements of the OMB Circular A-133 Compliance Supplement and pay its vendors prior to requesting federal reimbursement from MnDOT.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Lana Henrichs

Corrective Action Planned:

Rock County will follow the requirements of the OMB Circular A-133 Compliance Supplement and pay vendors prior to requesting federal reimbursement from MnDOT unless federal guidance permits otherwise.

Anticipated Completion Date:

Rock County will begin this immediately.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Rock County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 18, 2014.

Internal Control Over Financial Reporting

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

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

significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2005-001 and 2011-001 that we consider to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that Rock County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Rock County's Responses to Findings

Rock County's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 18, 2014

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Rock County

Report on Compliance for Each Major Federal Program

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 the County's major federal program for the year ended December 31, 2013. Rock County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Rock County's major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Rock County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001. Our opinion on the major federal program is not modified with respect to this matter.

Rock County's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Rock County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Rock County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001 that we consider to be a significant deficiency.

Rock County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Rock County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 18, 2014