

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

ROCK COUNTY RURAL WATER DISTRICT
(A COMPONENT UNIT OF ROCK COUNTY)
LUVERNE, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 700 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 RURAL WATER DISTRICT
(A COMPONENT UNIT OF ROCK COUNTY)
LIVERNE, MINNESOTA**

Year Ended December 31, 2015



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

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**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

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**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

**ORGANIZATION SCHEDULE
2015**

<u>Position</u>	<u>Name</u>	<u>Term Expires</u>
Chair	Marvin Tofteland	January 2016
Vice Chair	Paul Arends	January 2017
Secretary	Del Walraven	January 2018
Treasurer	Stanley Williamson	January 2016
Director	Paul Heronimus	January 2018
Director	Matt Boeve	January 2018
Director	Lila Bauer	January 2016

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rock County Rural Water District
Luverne, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Rock County Rural Water District, a component unit of Rock County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Rock County Rural Water District'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 an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Rock County Rural Water District'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 Rock County Rural

Water District'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rock County Rural Water District as of December 31, 2015, and the results of its operations and its cash flows 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.E. to the financial statements, in 2015 the Rock County Rural Water District adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2016, on our consideration of the Rock County Rural Water District'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 the Rock County Rural Water District's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Rock County Rural Water District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA 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 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

September 13, 2016

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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BASIC FINANCIAL STATEMENTS

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**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

EXHIBIT 1

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

Assets

Current assets

Cash and pooled investments	\$ 879,433
Investments	451,808
Accounts receivable	3,922
Accrued interest receivable	2,325
Due from other governments	818,350
Inventories	253,172
Prepaid items	9,240
	<hr/>
Total current assets	\$ 2,418,250

Restricted assets

Investments	\$ 1,175,000
Special assessments - noncurrent	775,449
	<hr/>
Total restricted assets	\$ 1,950,449

Noncurrent assets

Other postemployment benefits receivable	\$ 1,042
Capital assets	
Non-depreciable capital assets	5,094,499
Depreciable capital assets - net of accumulated depreciation	3,507,387
	<hr/>
Total noncurrent assets	\$ 8,602,928

Total Assets

\$ 12,971,627

Deferred Outflows of Resources

Deferred pension outflows	\$ 29,784
---------------------------	------------------

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

**EXHIBIT 1
(Continued)**

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

Liabilities

Current liabilities

Accounts payable	\$ 82,751
Salaries payable	3,161
Contracts payable	736,978
Accrued interest payable	3,176
Compensated absences	2,293
Customer deposits	3,130
Notes payable	112,000
Bonds payable	2,451,064

Total current liabilities **\$ 3,394,553**

Noncurrent liabilities

Compensated absences	\$ 11,766
Notes payable	561,000
Net pension liability	212,691

Total noncurrent liabilities **\$ 785,457**

Total Liabilities **\$ 4,180,010**

Deferred Inflows of Resources

Deferred pension inflows	\$ 21,433
--------------------------	-----------

Net Position

Net investment in capital assets	\$ 5,480,011
Restricted for repairs and upgrades to distribution system	1,950,449
Unrestricted	1,369,508

Total Net Position **\$ 8,799,968**

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015**

Operating Revenues	
Charges for services	\$ 862,744
Miscellaneous	100,605
	<hr/>
Total Operating Revenues	\$ 963,349
Operating Expenses	
Personal services	\$ 267,950
Office expense	21,083
Operations	118,459
Materials	107,710
Utilities	81,376
Depreciation	223,738
	<hr/>
Total Operating Expenses	\$ 820,316
Operating Income (Loss)	\$ 143,033
Nonoperating Revenues (Expenses)	
State shared revenue - PERA rate reimbursement	\$ 611
Interest on non-restricted investments	8,314
Interest on restricted investments	8,815
Interest on long-term debt	(10,709)
Lewis and Clark expense	(15,150)
Bond issuance costs	(43,563)
Expansion project crop damage payments	(159,415)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ (211,097)
Income (Loss) Before Contributions	\$ (68,064)
Capital Contributions	
Assessments	\$ 419,541
USDA capital grant	1,644,029
	<hr/>
Total Capital Contributions	\$ 2,063,570
Change in net position	\$ 1,995,506
Net Position - January 1, as restated (Note 1.E.)	6,804,462
	<hr/>
Net Position - December 31	\$ 8,799,968
	<hr/> <hr/>

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

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**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Cash received from services	\$ 959,891
Cash paid to employees for services	(275,559)
Cash paid to suppliers for goods or services	<u>(458,902)</u>
Net cash provided by (used in) operating activities	<u>\$ 225,430</u>
Cash Flows from Non-Capital Financing Activities	
State shared revenue - PERA rate reimbursement	\$ 611
Damage recovery	23,560
Lewis and Clark expense	<u>(16,557)</u>
Net cash provided by (used in) non-capital financing activities	<u>\$ 7,614</u>
Cash Flows from Capital and Related Financing Activities	
Proceeds from issuance of temporary revenue bonds	\$ 2,451,064
Payments of temporary revenue bond issuance costs	(43,563)
Principal paid on revenue notes	(111,000)
Interest paid on revenue notes	(11,300)
Capital contributions received - assessments	73,919
Capital contributions received - USDA capital grant	825,679
Payments for acquisition of capital assets	<u>(3,641,087)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (456,288)</u>
Cash Flows from Investing Activities	
Interest received on non-restricted investments	\$ 10,116
Interest received on restricted investments	9,067
Sale (purchase) of non-restricted investments	<u>372,998</u>
Net cash provided by (used in) investing activities	<u>\$ 392,181</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 168,937</u>
Cash and Cash Equivalents at January 1	<u>710,496</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 879,433</u></u>

**ROCK COUNTY RURAL WATER DISTRICT
LUVERNE, MINNESOTA**

**EXHIBIT 3
(Continued)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
Increase (Decrease) in Cash and Cash Equivalents**

**Reconciliation of Operating Income (Loss) to Net Cash Provided by
(Used in) Operating Activities**

Operating income (loss)		\$ 143,033
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	\$	223,738
(Increase) decrease in inventories		(136,663)
(Increase) decrease in accounts receivable		(2,741)
(Increase) decrease in prepaid items		3,941
(Increase) decrease in deferred outflows		(20,859)
(Increase) decrease in other postemployment benefits receivable		(605)
Increase (decrease) in accounts payable		202
Increase (decrease) in salaries payable		(9,735)
Increase (decrease) in compensated absences		(1,622)
Increase (decrease) in customer deposits		(317)
Increase (decrease) in net pension liability		5,625
Increase (decrease) in deferred inflows		21,433
		<hr/>
Total adjustments	\$	82,397
		<hr/>
Net Cash Provided by (Used In) Operating Activities	\$	225,430
		<hr/> <hr/>

Supplemental Disclosure of Cash Flow Information

Acquisition of capital assets included in contracts payable	\$	736,978
Acquisition of capital assets included in accounts payable		69,239

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**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The Rock County Rural Water District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2015. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the Rural Water District are discussed below.

A. Financial Reporting Entity

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. The Rural Water District is governed by a board composed of seven members appointed by the Rock County Board of Commissioners. The Rock County Rural Water District is a component unit of Rock County because Rock County is financially accountable for the Rural Water District. The Rural Water District's financial statements are discretely presented in the Rock County financial statements as a separate column in the financial statements to emphasize that it is legally separate from the County.

B. 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. Operating expenses are all expenses incurred to provide services. Expenses not meeting this definition are reporting as nonoperating expenses. The Rural Water District's net position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The Rock County Rural Water District's financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is the Rural Water District'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

For purposes of the statement of cash flows, the Rock County Rural Water District has 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. The Rural Water District's cash is pooled and invested by the Rock County Auditor-Treasurer for the purpose of increasing earnings through investment activities. Additionally, the Rural Water District's equity in the investment pool is treated as a cash equivalent because the Rural Water District can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Deposits and Investments

Cash and pooled investments are reported at their fair value at December 31, 2015, based on market prices. Investments are reported at fair value at December 31, 2015, based on market prices. Pooled investment earnings for 2015 were \$2,980.

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Deposits and Investments (Continued)

The Rural Water 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 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 Rural Water 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 Rural Water District was \$1,175,000 at December 31.

3. Receivables and Payables

The Rural Water District had no accounts receivable scheduled to be collected beyond one year.

4. Inventories and Prepaid Items

Inventories are valued at cost using the first in/first out method. Inventories are recorded as expenses when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Restricted Assets

Certain funds of the Rural Water District 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.

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Restricted Assets (Continued)

Special assessments receivable consist of noncurrent special assessments payable in 2016 and after.

No allowance for uncollectible special assessments has been provided because such amount is not expected to be material.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as the distribution system), are reported in the financial statements. The Rock County Rural Water District defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 40
Improvements other than buildings	20 - 35
Public domain infrastructure	15 - 75
Machinery and equipment	3 - 15

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred. The Rural Water District's 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

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 straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenses.

9. Pension Plan

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

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. The Rural Water District has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows consist of pension plan contributions paid subsequent to the measurement date and the differences between projected and actual earnings on pension plan investments.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Rural Water District has one item, deferred pension inflows, that qualifies for reporting in this category. These inflows consist of differences between expected and actual pension plan economic experience and pension plan changes in proportionate share.

11. Equity Classifications

Equity is classified as net position and presented in three components:

- 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.

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Use of Estimates

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

E. Change in Accounting Principle

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

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

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

GASB Statements 68 and 71 require the Rural Water District to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the Rural Water District's net pension liability of (\$207,066) and related deferred outflows of resources of \$8,925.

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Change in Accounting Principle (Continued)

Net Position, January 1, 2015, as previously reported	\$ 7,002,603
Change in accounting principle	<u>(198,141)</u>
Net Position, January 1, 2015, as restated	<u>\$ 6,804,462</u>

2. Detailed Notes

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

Reconciliation of the Rural Water District's total cash and investments to the basic financial statements follows:

Cash and pooled investments	\$ 879,433
Investments	451,808
Investments - restricted	<u>1,175,000</u>
Total Deposits and Investments	<u>\$ 2,506,241</u>
Petty cash and change funds	\$ 75
Checking	864,435
Savings	14,923
Certificates of deposit	<u>1,626,808</u>
Total Deposits and Investments	<u>\$ 2,506,241</u>

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

2. Detailed Notes

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

a. Deposits

The Rock County Rural Water District's deposits are held by Rock County, who 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 Rural Water District is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Rural Water District's deposits may not be returned to it. The Rural Water District'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, 2015, the Rural Water District's deposits were not exposed to custodial credit risk.

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

2. Detailed Notes

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

2. Detailed Notes

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The Rural Water District minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the policy of the 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 Rural Water District's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for Rock 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 Rock County's custodian. As of December 31 2015, the Rural Water District's investments were not exposed to custodial credit risk.

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

2. Detailed Notes

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

2. Receivables

Receivables as of December 31, 2015, for the Rock County Rural Water District are as follows:

	Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts receivable	\$ 3,922	\$ -
Interest	2,325	-
Due from other governments	818,350	-
Total Receivables	\$ 824,597	\$ -
Receivables - restricted		
Special assessments	\$ 775,449	\$ 709,181

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

2. Detailed Notes

A. Assets and Deferred Outflows of Resources (Continued)

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land and right-of-way	\$ 110,370	\$ -	\$ -	\$ 110,370
Lewis and Clark project	655,332	-	-	655,332
Construction in progress	426,760	4,075,623	195,290	4,307,093
Expansion project	21,704	-	-	21,704
Total capital assets not depreciated	\$ 1,214,166	\$ 4,075,623	\$ 195,290	\$ 5,094,499
Capital assets depreciated				
Buildings and pumps	\$ 3,071,409	\$ 26,961	\$ -	\$ 3,098,370
Land improvements	11,649	-	-	11,649
Machinery, furniture, and equipment	404,418	86,533	-	490,951
Infrastructure - distribution system	4,189,780	251,900	-	4,441,680
Total capital assets depreciated	\$ 7,677,256	\$ 365,394	\$ -	\$ 8,042,650
Less: accumulated depreciation for				
Buildings and pumps	\$ 1,764,470	\$ 79,725	\$ -	\$ 1,844,195
Land improvements	1,831	291	-	2,122
Machinery, furniture, and equipment	148,382	31,658	-	180,040
Infrastructure - distribution system	2,396,842	112,064	-	2,508,906
Total accumulated depreciation	\$ 4,311,525	\$ 223,738	\$ -	\$ 4,535,263
Total capital assets depreciated, net	\$ 3,365,731	\$ 141,656	\$ -	\$ 3,507,387
Capital Assets, Net	\$ 4,579,897	\$ 4,217,279	\$ 195,290	\$ 8,601,886

Construction in progress consists of amounts completed on a water distribution system improvement project.

Depreciation expense for 2015 was \$223,738.

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

2. Detailed Notes (Continued)

B. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2015, were as follows:

Accounts payable	\$ 82,751
Salaries payable	3,161
Contracts payable	<u>736,978</u>
Total Payables	<u>\$ 822,890</u>

2. Construction Commitments

The Rock County Rural Water District has spent \$3,634,253 to date on water distribution system improvements, with a remaining commitment of \$198,385.

3. 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. Additional financing was obtained 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.

In 2015, the Rock County Rural Water District issued General Obligation Temporary Water Revenue Bonds, Series 2015A, in the amount of \$2,445,000 with a maturity of July 1, 2017, and a one percent coupon rate. The bonds will be retired with the proceeds of a U.S. Department of Agriculture (USDA) Rural Development loan. The bonds were issued to finance water improvement projects for the Rock County Rural Water District.

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

2. Detailed Notes

B. Liabilities and Deferred Inflows of Resources

3. Long-Term Debt (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2015
G.O. Temporary Water Revenue Bonds, Series 2015A	2017	\$2,445,000	1.00	<u>\$ 2,445,000</u>	\$ 2,445,000
Plus: unamortized premium					<u>6,064</u>
Total General Obligation Bonds, Net					<u>\$ 2,451,064</u>
General obligation notes					
2000 G.O. Revenue Note	2019	\$14,000 - \$89,000	1.79	\$ 1,460,000	\$ 346,000
2007 G.O. Revenue Note	2026	\$16,000 - \$31,000	1.02	<u>533,000</u>	<u>327,000</u>
Total General Obligation Notes				<u>\$ 1,993,000</u>	<u>\$ 673,000</u>

Debt Service Requirements

Debt service requirements at December 31, 2015, were as follows:

Year Ending December 31	General Obligation Revenue Notes		General Obligation Temporary Water Bonds	
	Principal	Interest	Principal	Interest
2016	\$ 112,000	\$ 9,529	\$ 2,445,000	\$ 24,450
2017	115,000	7,740	-	-
2018	116,000	5,904	-	-
2019	118,000	4,051	-	-
2020	29,000	2,162	-	-
2021 - 2025	152,000	6,263	-	-
2026	31,000	316	-	-
Total	<u>\$ 673,000</u>	<u>\$ 35,965</u>	<u>\$ 2,445,000</u>	<u>\$ 24,450</u>

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

2. Detailed Notes

B. Liabilities and Deferred Inflows of Resources

3. Long-Term Debt (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
G.O. Temporary Water Revenue Bonds, Series 2015A	\$ -	\$ 2,445,000	\$ -	\$ 2,445,000	\$ 2,445,000
Plus: unamortized premiums	-	6,064	-	6,064	6,064
Total G.O. bonds payable	\$ -	\$ 2,451,064	\$ -	\$ 2,451,064	\$ 2,451,064
G.O. revenue note 2000	\$ 429,000	\$ -	\$ 83,000	\$ 346,000	\$ 84,000
G.O. revenue note 2007	355,000	-	28,000	327,000	28,000
Compensated absences	15,681	10,223	11,845	14,059	2,293
Total Long-Term Liabilities	\$ 799,681	\$ 2,461,287	\$ 122,845	\$ 3,138,123	\$ 2,565,357

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

All full-time and certain part-time employees of the Rock County Rural Water District are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

2. Benefits Provided

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

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

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 Plan and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

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

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015.

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

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.50

The Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014.

The Rural Water District's contributions for the General Employees Retirement Fund for the year ended December 31, 2015, were \$16,196. The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

At December 31, 2015, the Rural Water District reported a liability of \$212,691 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Rural Water District's proportion of the net pension liability was based on the Rural Water District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Rural Water District's proportion was 0.0041 percent. It was 0.0052 percent measured as of

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

June 30, 2014. The Rural Water District recognized pension expense of \$24,702 for its proportionate share of the General Employees Retirement Fund's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 10,723
Difference between projected and actual investment earnings	20,134	-
Changes in proportion	-	10,710
Contributions paid to PERA subsequent to the measurement date	9,650	-
Total	\$ 29,784	\$ 21,433

A total of \$9,650 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ (2,111)
2017	(2,111)
2018	(2,111)
2019	5,034

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

5. Actuarial Assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. The cost of living benefit increases for retirees was assumed to be 1.0 percent effective every January 1 through 2035, and 2.5 percent thereafter.

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

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

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

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

6. Discount Rate

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

7. Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate (6.9%)</u>	<u>Discount Rate (7.9%)</u>	<u>1% Increase in Discount Rate (8.9%)</u>
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 334,425	\$ 212,691	\$ 112,156

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

8. Pension Plan Fiduciary Net Position

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

B. Other Postemployment Benefits (OPEB)

Plan Description

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

Funding Policy

The contribution requirements of the plan members and Rock 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 Rock County employees. This results in the retirees receiving an implicit rate subsidy. For 2015, there were approximately 67 participants in the plan, including 2 retirees (the Rural Water District has 5 participants in the plan, including 1 retiree). The implicit rate subsidy amount was determined by an actuary study to be \$14,339 for 2015 (\$9,622 for Rock County and \$4,717 for the Rock County Rural Water District).

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

B. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

The Rural Water District'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 Rural Water District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Rural Water District's net OPEB obligation to the plan.

ARC	\$	1,052
Interest on net OPEB obligation		(17)
Adjustment to ARC		2,640
		2,640
Annual OPEB cost (expense)	\$	3,675
Contributions made during the year		(4,280)
		(4,280)
Increase (decrease) in net OPEB obligation	\$	(605)
Net OPEB Obligation/(Asset) - Beginning of Year		(437)
		(437)
Net OPEB Obligation/(Asset) - End of Year	\$	(1,042)
		(1,042)

The Rural Water District's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation (asset) for the years ended December 31, 2013, 2014 and 2015, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)
December 31, 2013	\$ 733	\$ 1,350	184.17%	\$ 600
December 31, 2014	727	1,764	242.64	(437)
December 31, 2015	3,675	4,280	116.46	(1,042)

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

B. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, Rock County and the Rock County Rural Water District had no assets to fund the plan. The actuarial accrued liability for benefits was \$309,815, (\$303,128 for Rock County and \$6,687 for the Rock County Rural Water District) and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$309,815 (\$303,128 for Rock County and \$6,687 for the Rock County Rural Water District). The covered payroll (annual payroll of active employees covered by the plan) was \$3,420,059, and the ratio of the UAAL to the covered payroll was 9.1 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.

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

In the January 1, 2015, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0 percent investment rate of return (net of investment expenses), which is Rock County's implicit rate of return on its General Fund.

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

B. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

The annual health care cost trend is 7.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 8 years. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2015, was 22 years.

4. Summary of Significant Contingencies and Other Items

A. Risk Management

The Rock County Rural Water District 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 Rural Water District carries commercial insurance for property and casualty insurance. The Rural Water District is covered under Rock County's policy for workers' compensation with Minnesota Counties Intergovernmental Trust (MCIT). For group health benefits, the Rural Water District is covered under Rock County's joint powers agreement with the Southwest/West Central Service Cooperative. For all other risk, the Rural Water District carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$490,000 per claim in 2015 and \$500,000 in 2016. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Rural Water District in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and Rock 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 Rural Water District in a method and amount to be determined by MCIT.

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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 Rural Water District and partially on the experience of the group. The Service Cooperative solicits proposals from carriers and negotiates the contracts.

B. Contingent Liabilities

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

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

C. Subsequent Events

On June 29, 2016, the Rock County Rural Water District received \$2,448,000 in General Obligation Water Revenue Bond loan proceeds from the USDA as part of the Water and Waste Disposal Systems for Rural Communities (CFDA No. 10.760) grant and loan program, and redeemed the \$2,445,000 General Obligation Temporary Water Revenue Bonds, Series 2015A. The \$2,448,000 USDA loan is funded with the General Obligation Water Revenue Bonds of 2016. The term of the \$2,448,000 General Obligation Water Revenue Bonds is 40 years, with an interest rate of 2.25 percent, and principal payments ranging from \$40,000 to \$93,000 beginning on January 1, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

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**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

EXHIBIT A-1

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (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, 2012	\$ -	\$ 5,509	\$ 5,509	0.00%	\$ 3,636,645	0.15%
January 1, 2015	-	6,687	6,687	0.00%	3,420,059	0.20%

*The covered payroll presented is for the entire Rock County other postemployment benefits (OPEB) plan. Separate determinations of covered payroll for the Rock County Rural Water District were not presented in the OPEB actuarial valuations and are not readily available.

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

EXHIBIT A-2

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0041%	\$ 212,691	\$ 192,861	110.28%	78.19%

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

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

EXHIBIT A-3

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 16,196	\$ 16,196	-	\$ 215,949	7.50%

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

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

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

1. Other Postemployment Benefits - Funded Status

Rock County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2009. Separate determinations of the actuarial accrued liability and the covered payroll for the Rock County Rural Water District were not presented in the January 1, 2009, actuarial valuation. Future reports will provide additional trend analysis to meet the three actuarial valuation data requirement as the information becomes available. Since Rock County and the Rock County Rural Water District have not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the actuarial accrued liability for postemployment benefits is zero. See Note 3.B. in the notes to the financial statements for additional information regarding the Rural Water District's other postemployment benefits.

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

2012

Rock County obtained an actuarial valuation for Rock County and the Rock County Rural Water District as of January 1, 2012. Since the actuarial valuation as of January 1, 2009, the following actuarial assumptions have changed:

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.

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

2. Other Postemployment Benefits - Significant Plan Provision and Actuarial Assumption Changes (Continued)

2015

Rock County obtained an actuarial valuation for Rock County and the Rock County Rural Water District as of January 1, 2015. Since the actuarial valuation as of January 1, 2012, the following actuarial assumptions and plan provisions have changed:

Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases. At the time the valuation was completed, the actual 2015 medical cost increase was available. The actual 2015 increase of 14.9 percent has been taken into account in the valuation.
- The mortality table was updated from the projection of RP 2000 rates to 2012 (with Blue Collar adjustment for Police and Fire Personnel) to the RP-2014 White Collar Mortality Table with MP-2015 Generational Improvement Scale (Blue Collar Tables for Police and Fire Personnel).
- The discount rate was changed from 4.5 percent to 4.0 percent.

Plan Provisions

- The service requirement for access to group insurance was changed from three years to five years due to changes in the public pension provisions.

SUPPLEMENTARY INFORMATION

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**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

EXHIBIT B-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Direct		
Water and Waste Disposal Systems for Rural Communities (Total federal loan programs expended \$2,448,000)	10.760	<u>\$ 4,092,029</u>

The Rock County Rural Water District did not pass any federal awards through to subrecipients during the year ended December 31, 2015.

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**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Rock County Rural Water District, a discretely presented component unit of Rock County, Minnesota. The Rural Water District's reporting entity is defined in Note 1 to the basic financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Rock County Rural Water District under programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Rock County Rural Water District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Rock County Rural Water District.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Rock County Rural Water District has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Balance of Federal Loan Program

The Rock County Rural Water District was the recipient of the U.S. Department of Agriculture (USDA)'s grant and loan program Water and Waste Disposal Systems for Rural Communities, CFDA No. 10.760. In 2015, the Rock County Rural Water District incurred federal loan program expenditures of \$2,448,000 financed by \$2,445,000 General Obligation Temporary Water Revenue Bonds, Series 2015A, issued by the Rural Water

**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

4. Balance of Federal Loan Program (Continued)

District. As of December 31, 2015, the Rock County Rural Water District reported a balance outstanding on the temporary bonds of \$2,445,000 and no balance outstanding on the USDA loan. On June 29, 2016, the Rock County Rural Water District received the \$2,448,000 General Obligation Water Revenue Bond loan proceeds from the USDA loan program. The loan proceeds were used to redeem the \$2,445,000 balance outstanding of the temporary bonds.

5. Reconciliation to Statement of Revenues, Expenses, and Changes in Net Position

Capital contributions per Statement of Revenues, Expenses, and Changes in Net Position	\$ 1,644,029
Federal loan program expenditures	<u>2,448,000</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 4,092,029</u>

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**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- 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 federal programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal program is:

Water and Waste Disposal Systems for Rural Communities CFDA No. 10.760

The threshold for distinguishing between Types A and B programs was \$750,000.

The Rock County Rural Water District qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2010-001

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: The Rock County Rural Water District has one employee who is responsible for updating customer billings, collecting payments, recording transactions, and remitting funds to the Rock County Auditor/Treasurer's Office.

Context: Due to the limited number of office personnel within the Rock County Rural Water District, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the Rock County Rural Water District; however, the Board of Directors and 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 Rock County Rural Water District'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 Rock County Rural Water District indicated that it does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties.

Recommendation: We recommend the Board of Directors 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:

The System Manager will work to implement additional review procedures in the receipting process prior to the collections being brought to the County Auditor-Treasurer's Office.

ITEM ARISING THIS YEAR

Finding 2015-001

Audit Adjustment

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

Condition: During our audit, we identified a material adjustment that resulted in significant change to the Rock County Rural Water District's financial statements.

Context: The inability to make all necessary accrual adjustments or to detect misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. Independent external auditors cannot be considered part of the Rock County Rural Water District's internal control.

Effect: The following audit adjustment was reviewed and approved by management and is reflected in the financial statements: increased due from other governments and related federal grant capital contributions by \$818,350 to record additional receivables related to the Rock County Rural Water District's water delivery system expansion project.

Cause: Procedures were not in place to consider the full extent of all entries needed for financial reporting.

Recommendation: We recommend the Rock County Rural Water District staff review their financial statement closing procedures and trial balances and journal entries in detail to ensure that all significant adjustments have been made appropriately that are considered necessary to fairly present the Rock County Rural Water District's financial statements in accordance with generally accepted accounting principles.

Client's Response:

The Rock County Rural Water District will follow the County's guidelines as closely as possible to try to prevent this from being a future deficiency. We will work with the County Auditor-Treasurer to determine appropriate financial statement amounts that will include all necessary accruals.

PREVIOUSLY REPORTED ITEM RESOLVED

Prior Period Adjustment (2014-001)

An investment owned by the Rock County Rural Water District and in the possession of the Lewis and Clark Regional Water System was not previously recorded in the Rock County Rural Water District's general ledger. The restatement resulted in significant change to the Rock County Rural Water District's financial statements.

Resolution

A material prior period adjustment was not identified in the current year.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

Finding 2015-002

Identification of Federal Awards

Program: U.S. Department of Agriculture's Water and Waste Disposal Systems for Rural Communities (CFDA No. 10.760), 2015

Pass-Through Agency: Direct Award

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.510(b) states that the auditee must prepare a schedule of expenditures of federal awards (SEFA) for the period covered by the auditee's financial statements which must include the total federal awards expended as determined in accordance with § 200.502, *Basis for determining federal awards expended*.

Condition: The Rock County Rural Water District did not properly identify amounts expended for the federal grant and loan awarded under the Water and Waste Disposal Systems for Rural Communities program on its SEFA.

Questioned Costs: None.

Context: Rock County provided a SEFA for 2015 which reported total federal expenditures for the Water and Waste Disposal Systems for Rural Communities program of \$3,759,320, while the SEFA, after audit adjustments, reported total federal expenditures of \$4,092,029, a difference of \$332,709.

Effect: The Water and Waste Disposal Systems for Rural Communities program was selected to be audited as a major program based on the preliminary expenditures identified by the Rock County Rural Water District and its fiscal agent, Rock County. Audit procedures performed to determine the completeness of the expenditure population identified discrepancies which required additional testing, and resulted in additional audit time and costs.

Cause: Identification of federal awards is the responsibility of Rock County, as fiscal agent, which was not familiar with the water delivery system expansion project's timing and payments, and did not adequately determine federal expenditures that occurred during 2015.

Recommendation: We recommend the Rock County Rural Water District and Rock County management develop written procedures that will allow staff to correctly identify all federal financial assistance received and expended. We also recommend a review of all projects included in preliminary estimates and expenditure populations of federal awards for their SEFA reporting.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Brent Hoffmann, System Manager, and Ashley Kurtz, Rock County Auditor-Treasurer

Corrective Action Planned:

The Rural Water District will work more closely with the County to identify what federal financial assistance and expenditures will be and develop written procedures to help assist and direct for future projects.

Anticipated Completion Date:

June 1, 2017

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REBECCA OTTO
STATE AUDITOR

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

Independent Auditor's Report

Board of Directors
Rock County Rural Water District
Luverne, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Rock County Rural Water District, a component unit of Rock County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Rock County Rural Water District's basic financial statements, and have issued our report thereon dated September 13, 2016.

Internal Control Over Financial Reporting

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

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

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 Rock County Rural Water District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2010-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rock County Rural Water District'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 Other 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 Rock County Rural Water District'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 the Rock County Rural Water District has no tax increment financing. The provisions for deposits and investments, conflicts of interest, contracting and bidding, and claims and disbursements were tested in connection with our audit of Rock County, Minnesota.

In connection with our audit, nothing came to our attention that caused us to believe that the Rock County Rural Water District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other 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 Rock County Rural Water District's noncompliance with the above referenced provisions.

Rock County Rural Water District's Response to Findings

The Rock County Rural Water District's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The Rock County Rural Water District'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 Other Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the Rock County Rural Water District'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 Rock County Rural Water District'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

September 13, 2016

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REBECCA OTTO
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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 Directors
Rock County Rural Water District
Luverne, Minnesota

Report on Compliance for the Major Federal Program

We have audited the Rock County Rural Water District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Rock County Rural Water District's major federal program for the year ended December 31, 2015. The Rock County Rural Water District is a component unit of Rock County, Minnesota. The Rock County Rural Water District'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Rock County Rural Water District'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the Rock County Rural Water District'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 Rock County Rural Water District's compliance with those requirements.

Opinion on the Major Federal Program

In our opinion, the Rock County Rural Water District 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, 2015.

Report on Internal Control Over Compliance

Management of the Rock County Rural Water District 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 Rock County Rural Water District'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 the Uniform Guidance, 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 Rock County Rural Water District'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 2015-002 that we consider to be a significant deficiency.

The Rock County Rural Water District'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. The Rock County Rural Water District'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 the Uniform Guidance. 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

September 13, 2016