

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**ROCK COUNTY**  
**LUVERNE, MINNESOTA**

YEAR ENDED DECEMBER 31, 2014

## **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  
LIVERNE, MINNESOTA**

**Year Ended December 31, 2014**



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

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**ROCK COUNTY  
LIVERNE, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
<b>Introductory Section</b>		
Organization Schedule		1
Organization Schedule - Rock County Rural Water District		2
<b>Financial Section</b>		
Independent Auditor's Report		3
Management's Discussion and Analysis		6
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	1	16
Statement of Activities	2	17
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	19
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position--Governmental Activities	4	23
Statement of Revenues, Expenditures, and Changes in Fund Balance	5	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	6	28
Fiduciary Funds		
Statement of Fiduciary Net Position	7	29
Notes to the Financial Statements		30
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	84
Special Revenue Funds		
Public Works	A-2	87
Family Services	A-3	88
Land Management	A-4	89
Ditch	A-5	91
Schedule of Funding Progress - Other Postemployment Benefits	A-6	92
Notes to the Required Supplementary Information		93

**ROCK COUNTY  
LUVERNE, MINNESOTA**

TABLE OF CONTENTS

	Exhibit	Page
<b>Financial Section (Continued)</b>		
Supplementary Information		
Governmental Funds		
Budgetary Comparison Schedule - Debt Service Fund	B-1	95
Agency Funds		96
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	C-1	97
Other Schedules		
Schedule of Intergovernmental Revenue	D-1	99
Schedule of Expenditures of Federal Awards	D-2	100
Notes to the Schedule of Expenditures of Federal Awards		101
Rock County Rural Water District		
Statement of Net Position	E-1	103
Statement of Revenues, Expenses, and Changes in Net Position	E-2	105
Statement of Cash Flows	E-3	106
<b>Management and Compliance Section</b>		
Schedule of Findings and Questioned Costs		108
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		118
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance		121



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**ROCK COUNTY  
LUVERNE, MINNESOTA**

**ORGANIZATION SCHEDULE  
2014**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
<b>Commissioners</b>		
1st District	Kenneth Hoime	January 2017
2nd District	Stanley Williamson*	January 2019
3rd District	Ronald Boyenga**	January 2017
4th District	Robert Jarchow	January 2015
5th District	Jody Reisch	January 2017
<b>Officers</b>		
<b>Elected</b>		
Attorney	Donald R. Klosterbuer	January 2019
Sheriff	Evan Verbrugge	January 2019
<b>Appointed</b>		
Administrator	Kyle J. Oldre	Indefinite
Auditor/Treasurer	Ashley Kurtz	Indefinite
Highway Engineer	Mark Sehr	Indefinite
Land Records Director	Thomas Houselog	Indefinite

\*Chair 2014

\*\*Chair 2015

**ROCK COUNTY  
LIVERNE, MINNESOTA**

**ORGANIZATION SCHEDULE  
ROCK COUNTY RURAL WATER DISTRICT  
2014**

<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 OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Rock County  
Luverne, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County as of December 31, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Rock County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic

financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2015, on our consideration of Rock County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rock County's internal control over financial reporting and compliance.

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

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 23, 2015

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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

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**ROCK COUNTY  
LIVERNE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014  
(Unaudited)**

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the County's financial activities for the fiscal year ended December 31, 2014. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net position is \$58,869,241, of which \$52,859,646 represents net investment in capital assets, and \$1,385,674 is restricted to specific purposes. The \$4,623,921 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net position increased by \$940,063 for the year ended December 31, 2014. A large part of the increase is attributable to the County's net investment in capital assets.
- The net cost of governmental activities for the current fiscal year was \$4,996,595. General revenues and other items totaling \$5,936,658 funded the net cost.
- At the close of 2014, Rock County's combined ending governmental fund balances totaled \$8,640,057, a decrease of \$141,526 from 2013. Of this balance, \$2,273,299 was unassigned by Rock County and thus available for spending at the government's discretion.
- For the year ended December 31, 2014, the assigned and unassigned balance of the General Fund was \$3,513,856, or 54.6 percent, of the total General Fund expenditures for that year. This represents a decrease from 2013, which had 85.8 percent of the total General Fund expenditures.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

## **Government-Wide Financial Statements**

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

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

The Statement of Activities presents the County's governmental activities. Most of the basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities. The County has no business-type activities for which the County is legally accountable. The County has one component unit for which it is legally accountable.

The government-wide statements are Exhibits 1 and 2 of this report.

## **Fund Financial Statements**

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using modified accrual accounting. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County adopts an annual appropriated budget for its General Fund, Public Works Special Revenue Fund, Family Services Special Revenue Fund, Land Management Special Revenue Fund, Ditch Special Revenue Fund, and Debt Service Fund. Budgetary comparison schedules have been provided as either required or other supplementary information for each of these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements are Exhibits 3 through 6 of this report.

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

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

### **Notes to the Financial Statements**

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30 through 83 of this report.

### **Other Information**

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

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Over time, net position serves as a useful indicator of the County's financial position. Rock County's assets exceeded liabilities by \$58,869,241 at the close of 2014. The largest portion of Rock County's net position (89.8 percent) reflects the County's net investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges), less any related outstanding debt used to acquire those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

**Net Position**

	2014	2013
<b>Assets</b>		
Current and other assets	\$ 10,878,271	\$ 10,593,276
Capital assets	57,912,318	53,915,396
<b>Total Assets</b>	<b>\$ 68,790,589</b>	<b>\$ 64,508,672</b>
<b>Liabilities</b>		
Long-term liabilities	\$ 8,238,738	\$ 5,553,387
Current liabilities	1,181,895	1,026,107
<b>Total Liabilities</b>	<b>\$ 9,420,633</b>	<b>\$ 6,579,494</b>
<b>Deferred Inflows of Resources</b>		
Advances from other governments	\$ 500,715	\$ -
<b>Net Position</b>		
Net investment in capital assets	\$ 52,859,646	\$ 50,973,441
Restricted	1,385,674	1,519,820
Unrestricted	4,623,921	5,435,917
<b>Total Net Position</b>	<b>\$ 58,869,241</b>	<b>\$ 57,929,178</b>

Unrestricted net position--the part of net position that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--was 7.9 percent of the net position.

**Governmental Activities**

The County's governmental activities increased net position by 1.6 percent (\$58,869,241 for 2014 compared to \$57,929,178 for 2013). Key elements in this increase in net position are as follows for 2014, with comparative data for 2013:

**Changes in Net Position**

	2014	2013
<b>Revenues</b>		
<b>Program revenues</b>		
Fees, charges, fines, and other	\$ 2,301,175	\$ 2,398,031
Operating grants and contributions	5,206,124	4,279,553
Capital grants and contributions	875,660	2,719,346
<b>General revenues</b>		
Property and other taxes	5,501,629	4,752,357
Unrestricted state aid	275,172	250,563
Investment earnings	47,117	40,036
Other	112,740	116,140
<b>Total Revenues</b>	<b>\$ 14,319,617</b>	<b>\$ 14,556,026</b>

	<u>2014</u>	<u>2013</u>
Expenses		
General government	\$ 2,615,942	\$ 2,524,105
Public safety	2,114,464	2,001,314
Highways and streets	5,745,945	4,277,478
Sanitation	793,174	791,243
Human services	1,122,489	1,126,063
Health	74,922	74,922
Culture and recreation	383,501	370,904
Conservation of natural resources	426,763	308,346
Economic development	1,940	1,940
Interest	100,414	227,093
	<u>\$ 13,379,554</u>	<u>\$ 11,703,408</u>
Change in Net Position	\$ 940,063	\$ 2,852,618
Net Position - January 1	<u>57,929,178</u>	<u>55,076,560</u>
Net Position - December 31	<u>\$ 58,869,241</u>	<u>\$ 57,929,178</u>

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

### Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$8,640,057, a decrease of \$141,526 in comparison with the prior year. Of the combined ending fund balances, \$4,000,798 represents unrestricted (assigned and unassigned) fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is classified as either nonspendable or restricted to indicate that it is not available for new spending because it has already been restricted for various reasons either by state law, grant agreements, bond covenants, or is nonspendable.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unrestricted (assigned and unassigned) fund balance of \$3,513,856. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted (assigned and unassigned) fund balance to total expenditures. The General Fund's unrestricted (assigned and unassigned) fund balance represents 54.6 percent of total General Fund expenditures. During 2014, the ending fund balance increased by \$1,164,937. The primary reason for this increase was due to bond proceeds received in 2014 but not completely spent.

The Public Works Special Revenue Fund had an unassigned fund balance of \$(257,097) at fiscal year-end. The ending fund balance decreased \$1,107,378 during 2014, primarily due to greater than anticipated expenditures due to the flood and for Minnesota Department of Transportation highway allotments not received before year-end.

The Family Services Special Revenue Fund had an assigned fund balance of \$103,796 at fiscal year-end, representing 8.1 percent of its annual expenditures. The ending fund balance decreased \$154,177 during 2014, primarily due to capital expenditures for the Human Service building.

The Land Management Special Revenue Fund had an assigned fund balance of \$640,243 at fiscal year-end, representing 94.4 percent of its annual expenditures. The ending fund balance decreased \$42,431 during 2014, primarily due to budgeted use of reserves.

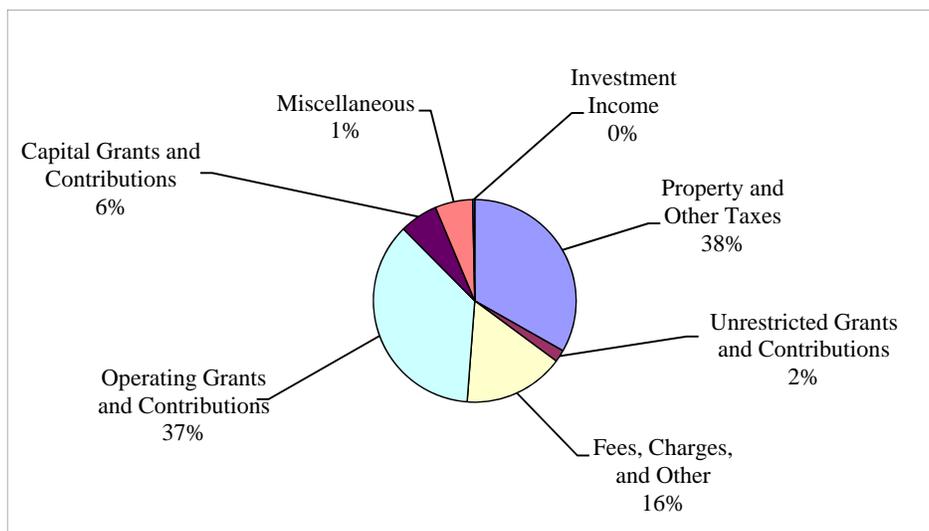
The Ditch Special Revenue Fund had a restricted fund balance of \$289,282 at fiscal year-end, representing 314.2 percent of its annual expenditures. The ending fund balance decreased \$16,260 during 2014.

The Debt Service Fund had a restricted fund balance of \$370,737 at fiscal year-end, representing 113.2 percent of its annual expenditures. The ending fund balance increased \$13,783. The Debt Service Fund consists of tax levy dollars used to pay the bond for the construction of the Law Enforcement Center and bonds for highway capital equipment and infrastructure.

**Governmental Activities**

The County’s total revenues were \$14,319,617. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2014.

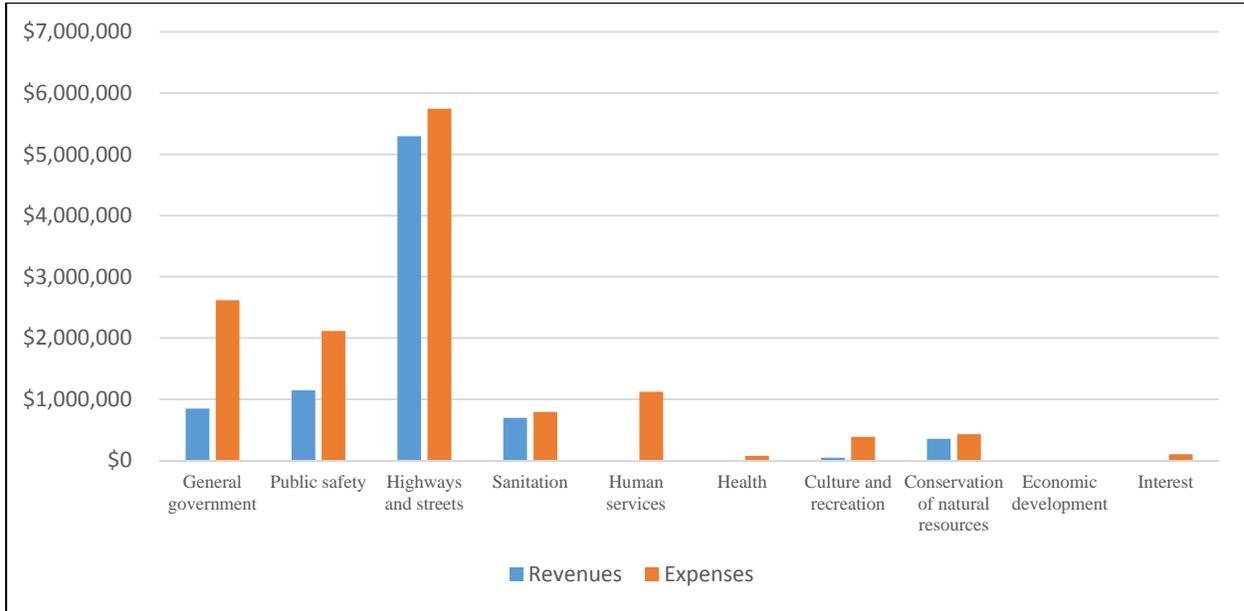
**Table 1  
Total County Revenues**



(Unaudited)

Table 2 presents the cost and revenue of each program of the County. Total program and general revenues for the County were \$14,319,617, while total expenses were \$13,379,554. This reflects a \$940,063 increase in net position for the year ended December 31, 2014.

**Table 2**  
**Total Program Revenues and Expenses**



The cost of all governmental activities this year was \$13,379,554. However, as shown on the Statement of Activities on Exhibit 2, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$4,996,595 because some of the costs were paid by those who directly benefited from the programs (\$2,301,175) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,081,784). The County paid for the remaining “public benefit” portion of governmental activities with \$5,936,658 in general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs, and investment income.

Table 3 presents the cost of each of the County’s four largest program functions as well as each function’s net cost (total cost, less revenues generated by the activity). The net cost shows the financial burden placed on the County’s taxpayers by each of these functions.

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost (Revenue) of Services	
	2014	2013	2014	2013
Highways and streets	\$ 5,745,945	\$ 4,277,478	\$ 449,840	\$ (2,047,616)
General government	2,615,942	2,524,105	1,769,385	1,639,627
Public safety	2,114,464	2,001,314	968,431	787,937
Human services	1,122,489	1,126,063	1,118,883	1,126,008
All others	1,780,714	1,774,448	690,056	800,522
<b>Totals</b>	<b>\$ 13,379,554</b>	<b>\$ 11,703,408</b>	<b>\$ 4,996,595</b>	<b>\$ 2,306,478</b>

**General Fund Budgetary Highlights**

Actual General Fund revenues exceeded final budgeted revenues by \$966,041 primarily due to greater than expected grants and other intergovernmental aid and the receipt of the first full year of wind production tax.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The County's capital assets for its governmental activities at December 31, 2014, totaled \$57,912,318 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$3,996,922, or 8.5 percent, from the previous year. The major capital asset events were additions to:

Infrastructure	\$ 5,921,976
Machinery and equipment	225,985

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

	2014	2013
Land	\$ 1,212,882	\$ 1,212,882
Construction in progress	23,825	420,354
Works of art and historical treasures	610,000	600,000
Infrastructure	44,929,745	40,237,721
Buildings	7,667,256	7,703,158
Land improvements	163,782	174,887
Machinery, equipment, and vehicles	3,304,828	3,566,394
<b>Total</b>	<b>\$ 57,912,318</b>	<b>\$ 53,915,396</b>

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

**Long-Term Debt**

At the end of the current fiscal year, the County had total outstanding debt of \$7,594,734, which was backed by the full faith and credit of the government.

**Table 5  
Outstanding Debt**

	2014	2013
General obligation bonds	\$ 7,005,000	\$ 4,535,000
Capital leases	73,463	-
Loans payable	516,271	534,639
<b>Total</b>	<b>\$ 7,594,734</b>	<b>\$ 5,069,639</b>

Minnesota statutes limit the amount of debt a county may levy to three percent of its total market value. At the end of 2014, the County’s outstanding debt was 0.26 percent of its total estimated market value of \$2,915,447,600.

Additional information on the County’s long-term debt can be found in Note 3.C.4. through Note 3.C.7. to the financial statements of this report.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS**

- The unemployment rate for Rock County at the end of 2014 was 2.1 percent. This compares favorably with the state unemployment rate of 3.7 percent and shows a slight decrease from the County’s 2.7 percent rate of one year ago. The 2014 population is estimated at 9,553.
- On December 16, 2014, the Rock County Board of Commissioners approved the 2015 budget and adopted a property tax levy of \$5,009,217, which represents a 3.90 percent increase over the 2014 property tax levy of \$4,821,191.

**Rock County Tax Rate and Levy History**

2015	18.241%	\$5,009,217
2014	18.890	4,821,191
2013	24.639	4,682,771
2012	29.144	4,597,714
2011	29.599	4,485,575
2010	28.573	4,170,151
2009	32.755	3,801,061
2008	35.717	3,654,847
2007	36.798	3,481,138

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

## **REQUESTS FOR INFORMATION**

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

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**ROCK COUNTY  
LUVERNE, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

	<b>Primary Governmental Activities</b>	<b>Component Unit Rock County Rural Water District</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 6,365,845	\$ 710,496
Investments	2,546,581	824,806
Investments - restricted	-	1,175,000
Receivables	1,898,610	28,717
Receivables - restricted	-	429,827
Inventories	57,912	116,509
Prepaid items	9,323	9,229
Other postemployment benefits (OPEB) receivable	-	437
Capital assets		
Non-depreciable capital assets	1,846,707	1,214,166
Depreciable capital assets - net of accumulated depreciation	56,065,611	3,365,731
	<b>\$ 68,790,589</b>	<b>\$ 7,874,918</b>
<b><u>Liabilities</u></b>		
Accounts payable and other current liabilities	\$ 1,009,170	\$ 65,420
Accrued interest payable	56,530	3,767
Customer deposits	19,385	3,447
Unearned revenue	96,810	-
Long-term liabilities		
Due within one year	744,925	112,864
Due in more than one year	7,370,210	686,817
Other postemployment benefits payable	123,603	-
	<b>\$ 9,420,633</b>	<b>\$ 872,315</b>
<b><u>Deferred Inflows of Resources</u></b>		
Advances from other governments	<b>\$ 500,715</b>	<b>\$ -</b>
<b><u>Net Position</u></b>		
Net investment in capital assets	\$ 52,859,646	\$ 3,795,898
Restricted for		
Public safety	320,935	-
Highways and streets	101,936	-
Debt service	321,244	-
Conservation of natural resources	273,883	-
Rural water distribution system	-	1,604,827
Other purposes	367,676	-
Unrestricted	4,623,921	1,601,878
	<b>\$ 58,869,241</b>	<b>\$ 7,002,603</b>

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

**ROCK COUNTY  
LUVERNE, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>
<b><u>Functions/Programs</u></b>		
<b>Primary government</b>		
<b>Governmental activities</b>		
General government	\$ 2,615,942	\$ 520,132
Public safety	2,114,464	921,940
Highways and streets	5,745,945	103,351
Sanitation	793,174	630,955
Human services	1,122,489	3,606
Health	74,922	-
Culture and recreation	383,501	16,572
Conservation of natural resources	426,763	104,619
Economic development	1,940	-
Interest	100,414	-
	<b>\$ 13,379,554</b>	<b>\$ 2,301,175</b>
<b>Total Governmental Activities</b>	<b>\$ 13,379,554</b>	<b>\$ 2,301,175</b>
 <b>Component Unit</b>		
Rock County Rural Water District	<b>\$ 777,326</b>	<b>\$ 888,865</b>

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

**Total general revenues**

**Change in net position**

**Net Position - Beginning, as restated (Note 7.A.)**

**Net Position - Ending**

**EXHIBIT 2**

<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Position</b>	
<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Primary Government Governmental Activities</b>	<b>Component Unit Rock County Rural Water District</b>
\$ 326,425	\$ -	\$ (1,769,385)	
203,353	20,740	(968,431)	
4,337,834	854,920	(449,840)	
63,803	-	(98,416)	
-	-	(1,118,883)	
-	-	(74,922)	
25,753	-	(341,176)	
248,956	-	(73,188)	
-	-	(1,940)	
-	-	(100,414)	
<b>\$ 5,206,124</b>	<b>\$ 875,660</b>	<b>\$ (4,996,595)</b>	
<b>\$ 33,560</b>	<b>\$ 162,721</b>		<b>\$ 307,820</b>
		\$ 4,755,786	\$ -
		33,140	-
		613,817	-
		32,982	-
		65,904	-
		275,172	611
		47,117	26,995
		112,740	-
		<b>\$ 5,936,658</b>	<b>\$ 27,606</b>
		<b>\$ 940,063</b>	<b>\$ 335,426</b>
		<b>57,929,178</b>	<b>6,667,177</b>
		<b>\$ 58,869,241</b>	<b>\$ 7,002,603</b>

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**ROCK COUNTY  
LUVERNE, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2014**

	<b>General</b>	<b>Public Works</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 4,582,673	\$ 187,361
Petty cash and change funds	1,475	75
Investments	1,680,500	861,081
Taxes receivable		
Prior	14,603	4,314
Special assessments receivable		
Prior	-	-
Noncurrent	-	-
Accounts receivable	50,517	16,319
Accrued interest receivable	1,822	973
Loans receivable	928,225	-
Due from other governments	30,226	246,878
Due from other funds	-	261
Inventories	-	57,912
Prepaid items	7,326	1,815
	<b>\$ 7,297,367</b>	<b>\$ 1,376,989</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 94,785	\$ 64,658
Salaries payable	120,506	54,855
Contracts payable	-	105,361
Due to other governments	22,679	499,481
Due to other funds	226	-
Unearned revenue	-	-
Customer deposits	1,385	-
	<b>\$ 239,581</b>	<b>\$ 724,355</b>
<b>Deferred Inflows of Resources</b>		
Unavailable revenue	\$ 21,359	\$ 155,752
Advance from other governments	-	500,715
	<b>\$ 21,359</b>	<b>\$ 656,467</b>

**EXHIBIT 3**

<u>Family Services</u>	<u>Land Management</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ 116,949	\$ 817,292	\$ 289,283	\$ 370,737	\$ 6,364,295
-	-	-	-	1,550
-	5,000	-	-	2,546,581
6,095	143	-	1,470	26,625
-	9,404	2,272	-	11,676
-	-	415,632	-	415,632
-	100	-	-	66,936
-	6	-	-	2,801
-	167,673	-	-	1,095,898
-	1,938	-	-	279,042
-	-	-	-	261
-	-	-	-	57,912
-	182	-	-	9,323
<b><u>\$ 123,044</u></b>	<b><u>\$ 1,001,738</u></b>	<b><u>\$ 707,187</u></b>	<b><u>\$ 372,207</u></b>	<b><u>\$ 10,878,532</u></b>
\$ 13,153	\$ 19,321	\$ -	\$ -	\$ 191,917
-	14,371	-	-	189,732
-	-	-	-	105,361
-	-	-	-	522,160
-	35	-	-	261
-	96,810	-	-	96,810
-	18,000	-	-	19,385
<b><u>\$ 13,153</u></b>	<b><u>\$ 148,537</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,125,626</u></b>
\$ 6,095	\$ 9,553	\$ 417,905	\$ 1,470	\$ 612,134
-	-	-	-	500,715
<b><u>\$ 6,095</u></b>	<b><u>\$ 9,553</u></b>	<b><u>\$ 417,905</u></b>	<b><u>\$ 1,470</u></b>	<b><u>\$ 1,112,849</u></b>

**ROCK COUNTY  
LIVERNE, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2014**

	<b>General</b>	<b>Public Works</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b> (Continued)		
<b>Fund Balances</b>		
Nonspendable		
Inventories	\$ -	\$ 57,912
Loans receivable	928,225	-
Prepaid items	7,326	1,815
Missing heirs	3,549	-
Restricted for		
Law library	15,533	-
Gun permit fees	18,272	-
Recorder's technology fund	50,462	-
Recorder's compliance fund	152,323	-
Enhanced 911	278,596	-
Septic system loans	-	-
Sheriff's contingency	61	-
Sheriff's forfeited property	24,006	-
Attorney forfeitures	120	-
Transportation	110,139	-
Unspent bond proceeds	1,933,959	-
Highway allotments	-	193,537
Ditch maintenance and repairs	-	-
Debt service	-	-
Assigned to		
Family services	-	-
Land management	-	-
Capital improvements	325,000	-
Capital equipment	613,817	-
Elections	44,643	-
Unassigned	2,530,396	(257,097)
<b>Total Fund Balances</b>	<b>\$ 7,036,427</b>	<b>\$ (3,833)</b>
 <b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 7,297,367</b>	<b>\$ 1,376,989</b>

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

<u>Family Services</u>	<u>Land Management</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 57,912
-	167,673	-	-	1,095,898
-	182	-	-	9,323
-	-	-	-	3,549
-	-	-	-	15,533
-	-	-	-	18,272
-	-	-	-	50,462
-	-	-	-	152,323
-	-	-	-	278,596
-	35,550	-	-	35,550
-	-	-	-	61
-	-	-	-	24,006
-	-	-	-	120
-	-	-	-	110,139
-	-	-	-	1,933,959
-	-	-	-	193,537
-	-	289,282	-	289,282
-	-	-	370,737	370,737
103,796	-	-	-	103,796
-	640,243	-	-	640,243
-	-	-	-	325,000
-	-	-	-	613,817
-	-	-	-	44,643
-	-	-	-	2,273,299
<u>\$ 103,796</u>	<u>\$ 843,648</u>	<u>\$ 289,282</u>	<u>\$ 370,737</u>	<u>\$ 8,640,057</u>
<u>\$ 123,044</u>	<u>\$ 1,001,738</u>	<u>\$ 707,187</u>	<u>\$ 372,207</u>	<u>\$ 10,878,532</u>

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**ROCK COUNTY  
LUVERNE, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2014**

<b>Fund balance - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>8,640,057</b>
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		57,912,318
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		612,134
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (7,005,000)	
Unamortized bond discount	19,781	
Unamortized bond premium	(154,828)	
Capital leases	(73,463)	
Loans payable	(516,271)	
Compensated absences	(385,354)	
Net OPEB obligation	(123,603)	
Accrued interest payable	(56,530)	
	(8,295,268)	(8,295,268)
<b>Net Position of Governmental Activities (Exhibit 1)</b>	<b>\$</b>	<b><u>58,869,241</u></b>

**ROCK COUNTY  
LIVERNE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>General</b>	<b>Public Works</b>
<b>Revenues</b>		
Taxes	\$ 3,220,596	\$ 801,065
Special assessments	-	-
Licenses and permits	7,645	-
Intergovernmental	793,164	5,471,444
Charges for services	1,315,925	487,387
Fines and forfeits	26,740	-
Gifts and contributions	10,013	-
Investment earnings	40,733	5,446
Miscellaneous	185,019	32,053
	<b>\$ 5,599,835</b>	<b>\$ 6,797,395</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 2,330,813	\$ -
Public safety	2,000,411	-
Highways and streets	-	9,311,934
Sanitation	-	428,370
Health	16,800	-
Culture and recreation	392,318	-
Conservation of natural resources	128,249	-
Economic development	1,940	-
<b>Intergovernmental</b>	197,071	283,942
<b>Capital outlay</b>		
General government	59,635	-
<b>Debt service</b>		
Principal	1,217,104	-
Interest	13,989	-
Administrative (fiscal) charges	495	-
Bond issuance costs	74,359	-
	<b>\$ 6,433,184</b>	<b>\$ 10,024,246</b>

**EXHIBIT 5**

<b>Family Services</b>	<b>Land Management</b>	<b>Ditch</b>	<b>Debt Service</b>	<b>Total</b>
\$ 1,062,315	\$ 25,248	\$ -	\$ 323,397	\$ 5,432,621
-	214,103	75,798	-	289,901
-	33,042	-	-	40,687
58,686	315,053	-	17,866	6,656,213
-	1,926	-	-	1,805,238
-	-	-	-	26,740
-	-	-	-	10,013
-	38	-	-	46,217
-	18,565	-	-	235,637
<b>\$ 1,121,001</b>	<b>\$ 607,975</b>	<b>\$ 75,798</b>	<b>\$ 341,263</b>	<b>\$ 14,543,267</b>
\$ 152,689	\$ 40,927	\$ -	\$ -	\$ 2,524,429
-	-	-	-	2,000,411
-	-	-	-	9,311,934
-	326,753	-	-	755,123
-	-	-	-	16,800
-	-	-	-	392,318
-	292,790	4,525	-	425,564
-	-	-	-	1,940
1,122,489	-	-	-	1,603,502
-	-	-	-	59,635
-	14,979	70,000	256,460	1,558,543
-	3,028	17,038	70,090	104,145
-	-	495	930	1,920
-	-	-	-	74,359
<b>\$ 1,275,178</b>	<b>\$ 678,477</b>	<b>\$ 92,058</b>	<b>\$ 327,480</b>	<b>\$ 18,830,623</b>

**ROCK COUNTY  
LIVERNE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>General</b>	<b>Public Works</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (833,349)</b>	<b>\$ (3,226,851)</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ -	\$ 2,165,886
Transfers out	(2,165,886)	-
Bonds issued	3,970,000	-
Premium on bonds issued	108,605	-
Capital lease purchases	85,567	-
Loans issued	-	-
	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 1,998,286</b>	<b>\$ 2,165,886</b>
<b>Net Change in Fund Balance</b>	<b>\$ 1,164,937</b>	<b>\$ (1,060,965)</b>
<b>Fund Balance - January 1</b>	<b>5,871,490</b>	<b>1,103,545</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>(46,413)</b>
<b>Fund Balance - December 31</b>	<b>\$ 7,036,427</b>	<b>\$ (3,833)</b>

**EXHIBIT 5**  
**(Continued)**

<b>Family Services</b>	<b>Land Management</b>	<b>Ditch</b>	<b>Debt Service</b>	<b>Total</b>
<u>\$ (154,177)</u>	<u>\$ (70,502)</u>	<u>\$ (16,260)</u>	<u>\$ 13,783</u>	<u>\$ (4,287,356)</u>
\$ -	\$ -	\$ -	\$ -	\$ 2,165,886
-	-	-	-	(2,165,886)
-	-	-	-	3,970,000
-	-	-	-	108,605
-	-	-	-	85,567
<u>-</u>	<u>28,071</u>	<u>-</u>	<u>-</u>	<u>28,071</u>
<u>\$ -</u>	<u>\$ 28,071</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,192,243</u>
\$ (154,177)	\$ (42,431)	\$ (16,260)	\$ 13,783	\$ (95,113)
257,973	886,079	305,542	356,954	8,781,583
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(46,413)</u>
<u><u>\$ 103,796</u></u>	<u><u>\$ 843,648</u></u>	<u><u>\$ 289,282</u></u>	<u><u>\$ 370,737</u></u>	<u><u>\$ 8,640,057</u></u>

**ROCK COUNTY  
LIVERNE, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**Net change in fund balance - total governmental funds (Exhibit 5) \$ (95,113)**

Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred inflows of resources - December 31	\$ 612,134	
Deferred inflows of resources - January 1	<u>(835,784)</u>	(223,650)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Contributions of capital assets are reported in the statement of activities, but not in the funds. In the statement of activities, the net book value of assets disposed of is expensed, while not reported in the funds.

Expenditures for general capital assets and infrastructure	\$ 5,914,121	
Current year depreciation	<u>(1,917,199)</u>	3,996,922

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

General obligation bonds issued	\$ (3,970,000)	
Premium on bonds issued	(108,605)	
Capital lease purchases	(85,567)	
Loans issued	<u>(28,071)</u>	(4,192,243)

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

Principal repayments		
General obligation bonds	\$ 1,500,000	
Capital leases	12,104	
Loan payments	<u>46,439</u>	1,558,543

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

Change in compensated absences	\$ (43,794)	
Change in net OPEB obligation	(19,345)	
Change in accrued interest payable	(6,332)	
Amortization of discount and premium on bonds	11,488	
Change in inventories	<u>(46,413)</u>	<u>(104,396)</u>

**Change in Net Position of Governmental Activities (Exhibit 2) \$ 940,063**

**FIDUCIARY FUNDS**

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**ROCK COUNTY  
LIVERNE, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF FIDUCIARY NET POSITION  
AGENCY FUNDS  
December 31, 2014**

<u>Assets</u>	
Cash and pooled investments	<u>\$ 421,476</u>
 <u>Liabilities</u>	
Salaries payable	\$ 30,311
Due to other governments	<u>391,165</u>
<b>Total Liabilities</b>	<b><u>\$ 421,476</u></b>

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**ROCK COUNTY  
LIVERNE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2014. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Rock County was established May 23, 1884, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. § 373.01. As required by accounting principles generally accepted in the United States of America, these financial statements present Rock County (primary government) and its component unit for which the County is financially accountable. The County is financially accountable if it appoints a voting majority of an organization's governing body and has the ability to impose its will on that governing body, or if the organization could potentially provide specific financial benefits or impose specific financial burdens on the County.

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

Discretely Presented Component Unit

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Unit (Continued)

Water District was established in 1978 to provide water to rural residents of Rock County with the powers, duties, and privileges granted it by Minn. Stat. ch. 116A. Separate financial statements are not prepared.

Joint Ventures and Jointly-Governed Organizations

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the primary government and its component units. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which are normally supported by taxes and intergovernmental revenue, are reported separately.

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

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

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

The County reports the following major governmental funds:

- The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.
- The Public Works Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways and accounts for the County's garbage transfer station.
- The Family Services Special Revenue Fund accounts for assigned property tax revenues used for economic assistance and community social services programs.
- The Land Management Special Revenue Fund accounts for restricted special assessment revenues, restricted revenues from the state government, and assigned property tax revenues for the maintenance of the County's sanitation, planning and zoning, and water planning functions.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

- The Ditch Special Revenue Fund accounts for special assessment revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.
- The Debt Service Fund is used to account for the financial resources restricted for payment of long-term principal, interest, and related costs.

Additionally, the County reports the following fiduciary fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor-Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2014, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2014 were \$21,159 for the County.

3. Receivables and Payables

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

**ROCK COUNTY  
LUVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

3. Receivables and Payables (Continued)

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

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15 or November 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as prior taxes receivable.

Special assessments receivable consist of prior special assessments payable in the years 2008 through 2014 and noncurrent special assessments payable in 2015 and after. Unpaid special assessments at December 31 are classified in the financial statements as prior special assessments.

No allowance for uncollectible taxes/special assessments has been provided because such amounts are not expected to be material.

The County had no accounts receivables scheduled to be collected beyond one year.

4. Inventories and Prepaid Items

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

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

5. Restricted Assets

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. 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  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

7. Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received but not yet earned.

8. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. A liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide financial statements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of an amount based on a trend analysis of current usage of vacation and vested sick leave. The noncurrent portion consists of the remaining amount of vacation and vested sick leave.

9. Long-Term Obligations

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations (Continued)

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

10. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has two such items that qualify for reporting in this category. The first item, unavailable revenue, arises only under a modified accrual basis of accounting and consists of receivables for revenues that are not considered to be available to liquidate liabilities in the current period; however, the second item, advance from other governments, arises under both the modified and the full accrual basis of accounting. Unavailable revenue and the advance from other governments are reported in the governmental funds balance sheet, while only the advance from other governments is also reported in the statement of net position. Unavailable revenues are deferred and recognized as inflows of resources in the period that the amounts become available and advances are recognized when timing requirements have been met.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

11. Classification of Net Position

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

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

12. Classification of Fund Balances

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

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

12. Classification of Fund Balances (Continued)

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

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

13. Minimum Fund Balance

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

14. 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. Future Change in Accounting Standards

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*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the County's calendar year 2015. The County has not yet determined the financial statement impact of adopting this new standard.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

Deficit Fund Balance

The Public Works Special Revenue Fund has a deficit fund balance of \$3,833 at December 31, 2014. The deficit fund balance will be eliminated through a combination of spending reductions, increased allotments, or a transfer from the General Fund.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 6,365,845
Investments	2,546,581
Statement of fiduciary net position	
Cash and pooled investments	<u>421,476</u>
Total Cash and Investments	<u>\$ 9,333,902</u>
Petty cash and change funds	\$ 1,550
Checking	4,907,677
Savings	1,878,094
Certificates of deposit	<u>2,546,581</u>
Total Deposits and Investments	<u>\$ 9,333,902</u>

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit.

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County’s policy is to minimize deposit custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2014, the County’s deposits were not exposed to custodial credit risk.

b. Investments

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

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

**ROCK COUNTY  
LUVERNE, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

**ROCK COUNTY  
LUVERNE, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage are available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31 2014, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2014, for the County's governmental activities are as follows:

	Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 26,625	\$ -
Special assessments	427,308	356,256
Accounts receivable	66,936	-
Interest	2,801	-
Loans receivable	1,095,898	301,914
Due from other governments	279,042	-
Total Governmental Activities	\$ 1,898,610	\$ 658,170

3. Loans Receivable

The General Fund has a loans receivable balance of \$928,225 as follows:

In March 2012, the County approved a \$150,000 loan to the Southwestern Mental Health Center, Inc., to bridge a financing gap for a building project. The loan is to be repaid with semi-annual repayments of \$3,336 each year, which includes interest on the unpaid principal at two percent beginning October 15, 2013, and ending March 1, 2043. The loan was issued during July 2013. As of December 31, 2014, the remaining balance on this loan is \$143,225.

In May 2013, the County issued a \$100,000 no-interest loan to the Rock County Agricultural Society to assist with fundraising gaps. Repayment is scheduled in \$20,000 installments beginning in 2014 and ending in 2018 with the intention to pay off early. As of December 31, 2014, the remaining balance on this loan was \$35,000.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Loans Receivable (Continued)

In June 2014, the County issued a \$750,000 loan to the Buffalo Ridge Regional Rail Authority to assist with flooding damages until reimbursement from the Federal Emergency Management Agency was received. As of December 31, 2014, the full \$750,000 was outstanding. The loan is expected to be repaid in full in 2015.

The Land Management Special Revenue Fund has a \$167,673 loans receivable balance from septic loans issued in 2010 through 2014. Loans receivable activity for Minnesota Pollution Control Agency (MPCA) septic system loans is as follows:

Loans receivable, January 1, 2014	\$	157,678
New loans issued during the year - MPCA		28,071
Payments received during the year		(18,076)
Loans Receivable	\$	167,673

4. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 193,861	\$ -	\$ -	\$ 193,861
Right-of-way	1,019,021	-	-	1,019,021
Construction in progress	420,354	23,825	420,354	23,825
Works of art and historical treasures	600,000	10,000	-	610,000
Total capital assets not depreciated	\$ 2,233,236	\$ 33,825	\$ 420,354	\$ 1,846,707
Capital assets depreciated				
Buildings	\$ 10,256,698	\$ 152,689	\$ -	\$ 10,409,387
Land improvements	242,912	-	-	242,912
Machinery, furniture, and equipment	6,726,969	225,985	28,201	6,924,753
Infrastructure	55,575,694	5,921,976	-	61,497,670
Total capital assets depreciated	\$ 72,802,273	\$ 6,300,650	\$ 28,201	\$ 79,074,722

**ROCK COUNTY  
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

4. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 2,553,540	\$ 188,591	\$ -	\$ 2,742,131
Land improvements	68,025	11,105	-	79,130
Machinery, furniture, and equipment	3,160,575	487,551	28,201	3,619,925
Infrastructure	<u>15,337,973</u>	<u>1,229,952</u>	<u>-</u>	<u>16,567,925</u>
 Total accumulated depreciation	 <u>\$ 21,120,113</u>	 <u>\$ 1,917,199</u>	 <u>\$ 28,201</u>	 <u>\$ 23,009,111</u>
 Total capital assets depreciated, net	 <u>\$ 51,682,160</u>	 <u>\$ 4,383,451</u>	 <u>\$ -</u>	 <u>\$ 56,065,611</u>
 Capital Assets, Net	 <u>\$ 53,915,396</u>	 <u>\$ 4,417,276</u>	 <u>\$ 420,354</u>	 <u>\$ 57,912,318</u>

Construction in progress consists of amounts completed on a Veterans Memorial building project.

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

Governmental Activities	
General government	\$ 237,745
Culture and recreation	56,477
Public safety	111,233
Highways and streets (including depreciation of infrastructure assets)	1,474,381
Sanitation	<u>37,363</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 1,917,199</u>

**ROCK COUNTY  
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2014, is as follows:

Receivable Fund	Payable Fund	Amount
Public Works Special Revenue	General	\$ 226
	Land Management Special Revenue	35
Total Due To/From Other Funds		\$ 261

The outstanding balances between funds result mainly from the time lag between the date the interfund goods and services are provided or reimbursable expenditures occur and are recorded in the accounting system, and the date when the funds are repaid.

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2014, consisted of the following:

Transfer from General Fund to Public Works Special Revenue Fund	\$ 2,165,886	Transfer of bond proceeds
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C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2014, were as follows:

Accounts payable	\$ 191,917
Salaries payable	189,732
Contracts payable	105,361
Due to other governments	522,160
Total Payables	\$ 1,009,170

**ROCK COUNTY  
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

2. Unearned Revenues/Deferred Inflows of Resources

Unearned revenues and deferred inflows of resources consist of special assessments, taxes, state and federal grants, and interest not collected soon enough after year-end to pay liabilities of the current period, and state and federal grants received but not yet earned. Unearned revenues and deferred inflows of resources at December 31, 2014, are summarized below by fund:

	Special Assessments	Taxes	Grants	Interest	Total
Major government funds					
General	\$ -	\$ 14,603	\$ 5,141	\$ 1,615	\$ 21,359
Public Works	-	4,314	651,244	909	656,467
Family Services	-	6,095	-	-	6,095
Ditch	417,905	-	-	-	417,905
Land Management	9,404	143	96,810	6	106,363
Debt Service	-	1,470	-	-	1,470
<b>Total</b>	<b>\$ 427,309</b>	<b>\$ 26,625</b>	<b>\$ 753,195</b>	<b>\$ 2,530</b>	<b>\$ 1,209,659</b>
Liability					
Unearned revenue	\$ -	\$ -	\$ 96,810	\$ -	\$ 96,810
Deferred inflows of resources					
Advance from other governments	-	-	500,715	-	500,715
Unavailable revenue	427,309	26,625	155,670	2,530	612,134
<b>Total</b>	<b>\$ 427,309</b>	<b>\$ 26,625</b>	<b>\$ 753,195</b>	<b>\$ 2,530</b>	<b>\$ 1,209,659</b>

3. Construction Commitments

Rock County did not have any active construction projects except for highway projects that are state-funded and, therefore, not obligations of the County at December 31, 2014.

4. Capital Leases

In 2014, Rock County entered into lease agreements as lessee for financing the acquisition of squad cars for the Sheriff's Department. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

**ROCK COUNTY  
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Capital Leases (Continued)

Capital leases consist of the following at December 31, 2014:

<u>Lease</u>	<u>Final Maturity</u>	<u>Installments</u>	<u>Payment Amount</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2014</u>
2014 Ford Interceptor Utility	2018	Monthly	\$ 591	\$ 26,222	\$ 21,254
2014 Ford Interceptor Sedan	2018	Monthly	517	24,367	20,506
2014 Ford Interceptor Utility	2021	Monthly	424	34,978	31,703
Total Capital Leases					<u>\$ 73,463</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2014, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2015	\$ 18,401
2016	18,401
2017	18,401
2018	8,345
2019	5,093
2020 - 2021	<u>6,790</u>
Total minimum lease payments	\$ 75,431
Less: amount representing interest	<u>(1,968)</u>
Present Value of Minimum Lease Payments	<u>\$ 73,463</u>

**ROCK COUNTY  
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

5. Long-Term Debt

Bonds Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2014</u>
Special assessment bonds with government commitment					
2010 G.O. Ditch Bonds	2021	\$70,000 - \$85,000	1.25 - 3.50	<u>\$ 750,000</u>	\$ 540,000
Less: unamortized discounts					<u>(3,190)</u>
Special Assessment Bonds with Government Commitment, Net					<u>\$ 536,810</u>
General obligation bonds					
2014 G.O. Capital Improvement Plan Bonds, Series 2014A	2025	\$320,000 - \$405,000	2.00 - 2.50	\$ 3,970,000	\$ 3,970,000
2012 G.O. Bonds, Series 2012A	2026	\$110,000 - \$270,000	2.00 - 2.40	2,640,000	2,495,000
2005 G.O. Capital Improvement Bonds	2026	\$45,000 - \$125,000	2.90 - 4.30	<u>1,750,000</u>	<u>-</u>
Total general obligation bonds				<u>\$ 8,360,000</u>	\$ 6,465,000
Add: unamortized premium					154,828
Less: unamortized discounts					<u>(16,591)</u>
Total General Obligation Bonds, Net					<u>\$ 6,603,237</u>

In 2014, Rock County issued \$3,970,000 General Obligation Capital Improvement Plan Bonds, Series 2014A, to finance road and bridge improvements within in the County.

**ROCK COUNTY  
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

5. Long-Term Debt (Continued)

Loans Payable

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

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

Type of Indebtedness	Final Maturity	Semi-Annual Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2014
Loans payable					
Rock River Clean Water Partnership	2023	\$18,007	2.000	\$ 162,471	\$ 140,113
Rock River Clean Water Partnership Phase II	-	-	-	63,037	63,037
Lismore Telephone Company	2023	\$36,000	1.375	360,000	313,121
Total Loans Payable				<u>\$ 585,508</u>	<u>\$ 516,271</u>

**ROCK COUNTY  
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Debt Service Requirements

Payments on General Obligation Bonds are made by the Debt Service Fund and payments on Special Assessment Bonds are made by the Ditch Special Revenue Fund. Debt service requirements at December 31, 2014, were as follows:

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2015	\$ 560,000	\$ 143,217	\$ 70,000	\$ 15,638
2016	575,000	150,775	75,000	13,906
2017	585,000	139,275	75,000	11,844
2018	600,000	101,400	75,000	9,594
2019	605,000	89,400	80,000	7,075
2020 - 2024	2,905,000	259,195	165,000	5,862
2025 - 2026	635,000	15,645	-	-
Total	\$ 6,465,000	\$ 898,907	\$ 540,000	\$ 63,919

Debt payments on the loans payable are made from the General Fund. Debt service requirements at December 31, 2014, were as follows:

Year Ending December 31	Loans Payable	
	Principal	Interest
2015	\$ 47,176	\$ 6,831
2016	47,924	6,083
2017	48,685	5,322
2018	49,458	4,549
2019	50,244	3,763
2020 - 2023	209,747	6,792
Total	\$ 453,234	\$ 33,340

Loans of \$63,037 for Rock River Clean Water Partnership Phase II are not included in the debt service requirements because a fixed repayment schedule is not yet available. Loan repayments are made from the Land Management Special Revenue Fund.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds payable	\$ 3,925,000	\$ 3,970,000	\$ 1,430,000	\$ 6,465,000	\$ 560,000
Add: unamortized premiums	59,879	108,605	13,656	154,828	-
Less: unamortized discounts	(18,122)	-	(1,531)	(16,591)	-
General obligation bonds payable, net	<u>\$ 3,966,757</u>	<u>\$ 4,078,605</u>	<u>\$ 1,442,125</u>	<u>\$ 6,603,237</u>	<u>\$ 560,000</u>
Special assessment bonds with government commitment	\$ 610,000	\$ -	\$ 70,000	\$ 540,000	\$ 70,000
Less: unamortized discounts	(3,827)	-	(637)	(3,190)	-
Special assessment bonds with government commitment, net	<u>\$ 606,173</u>	<u>\$ -</u>	<u>\$ 69,363</u>	<u>\$ 536,810</u>	<u>\$ 70,000</u>
Total bonds payable	\$ 4,572,930	\$ 4,078,605	\$ 1,511,488	\$ 7,140,047	\$ 630,000
Capital leases	-	85,567	12,104	73,463	17,507
Loans payable	534,639	28,071	46,439	516,271	47,176
Compensated absences	341,560	314,449	270,655	385,354	50,242
Net OPEB obligation	<u>104,258</u>	<u>43,519</u>	<u>24,174</u>	<u>123,603</u>	<u>-</u>
Governmental Activities Long-Term Liabilities	<u>\$ 5,553,387</u>	<u>\$ 4,550,211</u>	<u>\$ 1,864,860</u>	<u>\$ 8,238,738</u>	<u>\$ 744,925</u>

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

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

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

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

Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent for each year of service.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

For all General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014. Public Employees Police and Fire Fund members were required to contribute 10.20 percent of their annual covered salary in 2014.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Funding Policy (Continued)

In 2014, the County was required to contribute the following percentages of annual covered payroll:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	15.50

The County's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	2014	2013	2012
General Employees Retirement Fund	\$ 203,253	\$ 193,995	\$ 191,975
Public Employees Police and Fire Fund	116,609	91,851	89,425

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers) and the Public Employees Police and Fire Fund (10.80 percent for members and 16.20 percent for employers).

B. Defined Contribution Plan

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

**ROCK COUNTY  
LUVERNE, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2014, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,017	\$ 2,017
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

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

Funding Policy

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Funding Policy (Continued)

The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2014, there were approximately 80 participants of the County in the plan, including 2 retirees. The implicit rate subsidy amount was determined by an actuary study to be \$25,938 for 2014 (\$24,174 for the County and \$1,764 for the Rock County Rural Water District).

Annual OPEB Cost and Net OPEB Obligation

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

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

ARC	\$	45,340
Interest on net OPEB obligation		4,692
Adjustment to ARC		(6,513)
Annual OPEB cost (expense)	\$	43,519
Contributions made during the year		(24,174)
Increase in net OPEB obligation	\$	19,345
Net OPEB Obligation - Beginning of Year		104,258
Net OPEB Obligation - End of Year	\$	123,603

**ROCK COUNTY  
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for the years ended December 31, 2012, 2013, and 2014, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2012	\$ 43,338	\$ 24,097	55.60%	\$ 85,636
December 31, 2013	43,880	25,258	57.56	104,258
December 31, 2014	43,519	24,174	55.55	123,603

Funded Status and Funding Progress

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

Actuarial Methods and Assumptions

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

**ROCK COUNTY  
LUVERNE, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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

In the January 1, 2012, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Rock County's implicit rate of return on the General Fund.

The annual health care cost trend is 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 6 years. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2014, was 23 years.

5. Risk Management

Rock County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For group employee health benefits, the County has entered into a joint powers agreement, the Southwest/West Central Service Cooperative. For all other risk, the County 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.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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5. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$480,000 per claim in 2014 and \$490,000 in 2015. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

6. Summary of Significant Contingencies and Other Items

A. Subsequent Events

On August 1, 2015, Rock County issued \$1,190,000 in General Obligation Bonds, Series 2015B. The bonds were issued to finance fiber optic infrastructure within the County and to fund improvements for the County library. The bonds have a final maturity of 2036 and interest rates ranging from 3.00 to 3.75 percent.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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

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 County expects such amounts, if any, to be immaterial.

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

Lincoln-Pipestone Rural Water System

At December 31, 2014, the Lincoln-Pipestone Rural Water System had \$33,742,008 of general obligation bonds and other loans outstanding through 2052. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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

C. Joint Ventures

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

Southwest Health and Human Services

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

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

SWHHS is governed by the:

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Health and Human Services (Continued)

Financing is provided by state and federal grants and appropriations from member counties. Rock County's contribution in 2014 for the human services function was \$1,122,440, and its contribution to the health services function was \$58,122.

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

Lincoln-Pipestone Rural Water System

Rock County, along with Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Redwood, Pipestone, and Yellow Medicine Counties, jointly established the Lincoln-Pipestone Rural Water System pursuant to Minn. Stat. ch. 116A. The Rural Water System is responsible for storing, treating, and distributing water for domestic, commercial, and industrial use within the area it serves. The cost of providing these services is recovered through user charges.

The Lincoln-Pipestone Rural Water System is governed by a Board appointed by the District Court. The Rural Water System's Board is solely responsible for the budgeting and financing of the Rural Water System.

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2014, were \$33,742,008.

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Rock Nobles Community Corrections

Rock County participates with Nobles County in a joint venture to provide community corrections services. Rock Nobles Community Corrections was established under the Community Corrections Act, January 1, 1979. Rock Nobles Community Corrections develops and implements humane and effective methods of prevention, control, and rehabilitation of offenders.

The governing board is composed of two County Commissioners from the participating counties and three lay members.

Rock Nobles Community Corrections is headquartered in Worthington, Minnesota, with offices at the county seats of the member counties. Financing is provided by state grants and appropriations from member counties. Rock County's contribution to Rock Nobles Community Corrections for the year ended December 31, 2014, was \$78,949.

Rock County acts as fiscal agent for the Community Corrections and reports Rock Nobles Community Corrections as an agency fund in its financial statements. Nobles County reports Rock Nobles Community Corrections as a component unit in its financial statements.

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

Southwest Minnesota Regional Emergency Communications Joint Powers Board

As of August 23, 2013, the Southwest Minnesota Regional Radio Board changed its name to the Southwest Minnesota Regional Emergency Communications Joint Powers Board. The Southwest Minnesota Regional Emergency Communications Joint Powers Board was established April 22, 2008, between Rock County, the Cities of Marshall and Worthington, and 12 other counties under authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Minnesota Regional Emergency Communications Joint Powers Board  
(Continued)

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

Financing is provided by the appropriations from member parties and by state and federal grants. During 2014, Rock County contributed \$2,456 to the Joint Powers Board.

Southwest Regional Solid Waste Commission

Rock County has entered into a joint powers agreement with 11 other counties to create and operate the Southwest Regional Solid Waste Commission under the authority of Minn. Stat. § 471.59. The Commission was formed to exercise the County's authority and obligation pursuant to Minn. Stat. chs. 400 and 115A; to provide for the management of solid waste in the respective counties; and provide the greatest public service benefit possible for the entire contiguous 12-county area encompassed by the counties in planning, management, and implementation of methods to deal with solid waste in southwest Minnesota.

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Regional Solid Waste Commission (Continued)

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

Advocate, Connect, Educate (A.C.E.) of Southwest Minnesota

Rock County, in conjunction with Cottonwood, Lincoln, Lyon, Murray, Nobles, and Redwood Counties, and the Southwest Regional Development Commission, pursuant to Minn. Stat. § 471.59, have formed an agreement to coordinate the delivery of volunteer services to non-profit community service entities and local units of government meeting the guidelines for receiving volunteer services under the authority of the counties. The entity known as Retired and Senior Volunteer Program of Southwest Minnesota (RSVP of Southwest Minnesota) changed its name to A.C.E. of Southwest Minnesota as of January 1, 2014. The Board comprises one voting member from each participating County and one voting member of the A.C.E. of Southwest Minnesota Advisory Council. In 2014, Rock County made contributions of \$13,974 to the A.C.E. of Southwest Minnesota.

Buffalo Ridge Drug Task Force

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

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

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

**ROCK COUNTY  
LUVERNE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Buffalo Ridge Regional Transit

Buffalo Ridge Regional Transit System (BRRT) was established between Murray, Pipestone, and Rock Counties, and the City of Worthington-Nobles County Public Transportation Partnership - Joint Powers Agreement, a joint powers entity. The Buffalo Ridge Regional Transit Board was established in 2012 under the authority of Minn. Stat. §§ 471.59 and 174.21 through 174.27.

The purpose of BRRT is to establish cross-country public transportation in the four-county area using existing public transit systems and to increase efficiency by having established scheduled route times. The Southwest Minnesota Opportunity Council, Inc., is the fiscal agent. As of December 31, 2014, BRRT no longer provides transportation routes between the counties, but the Transit Board meets quarterly to discuss issues and efficiencies among the transportation departments.

Funding for operations shall be provided by grant funds and passenger revenues. In the event that grant funds and passenger revenues are insufficient to cover operation costs, each county shall agree to provide one-fourth of 15 percent of the operating budget for any calendar year provided, that in no event, shall any county pay more than \$5,118 for calendar year 2014. This funding cap is set for each year not later than September 1 of the preceding calendar year.

Plum Creek Library System

Rock County, along with 19 cities and 8 other counties, participates in the Plum Creek Library System. The Plum Creek Library System was created as a public library service on May 29, 1974, by the act of contracting with various public libraries in its region to provide expanded library service, with the additional purpose of furthering the public interest by providing the potential for extending public library services into areas without such services. The Plum Creek Library System is governed by a board of trustees which consists of two representatives from each county. One is appointed by the County Commissioners, the second from the board of the participating libraries. During 2014, Rock County did not contribute to the Plum Creek Library System.

Complete financial statements of the Plum Creek Library System can be obtained at 290 South Lake Street, P. O. Box 697, Worthington, Minnesota 56187.

**ROCK COUNTY  
LUVERNE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Southern Prairie Health Purchasing Alliance

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

Southwest Minnesota Private Industry Council, Inc.

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

SW MN PIC is governed by the Chief Elected Official Board, which is composed of one representative from each member county. Rock County did not provide support to this organization in 2014.

Separate financial information can be obtained from its offices within the Lyon County Government Center, 607 West Main Street, Marshall, Minnesota 56258.

Southwestern Mental Health Center, Inc.

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwestern Mental Health Center, Inc. (Continued)

In 2014, Rock County paid \$375 to the Southwestern Mental Health Center, Inc., for mental health services. Complete financial statements for the Southwestern Mental Health Center, Inc., can be obtained at 216 E. Luverne, Street, Luverne, Minnesota 56156.

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the Southwestern Minnesota Adult Mental Health Consortium Board was created under the authority of Minn. Stat. § 471.59. Presently, its members include Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Renville, Swift, and Yellow Medicine Counties; and Southwest Health and Human Services representing Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock Counties. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host.

The Board shall take action and enter into such agreements as necessary to plan and develop within the Southwestern Minnesota Adult Mental Health Consortium Board's geographic jurisdiction, a system of care that serves the needs of adults with serious and persistent mental illness. The governing board is composed of one Board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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

D. Jointly-Governed Organizations

Region Five - Southwest Minnesota Homeland Security Emergency Management Organization

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

Kanaranzi-Little Rock Watershed District

The Kanaranzi-Little Rock Watershed District was established for the primary purpose of conserving natural resources within the watershed. The Rock County Board is responsible for appointing two members of the Board of Managers for the Kanaranzi-Little Rock Watershed District, but the County's responsibility does not extend beyond making the appointments.

Minnesota Counties Computer Cooperative

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

Minnesota Criminal Justice Data Communications Network

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The purpose of the Board is to provide policy guidance on issues surrounding energy development in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use. During 2014, Rock County paid \$1,000 to the Board.

Sentencing to Service

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

Southwest Minnesota Immunization Information Connection

The Southwest Minnesota Immunization Information Connection (SW-MIIC) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. The County did not contribute to the SW-MIIC during 2014.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

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7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

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

Reporting Entity

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

Measurement Focus and Basis of Presentation

The Rock County Rural Water District presents as an enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

Deposits and Investments

The cash balances are invested by the District for the purpose of increasing earnings through investment activities. Investments are reported at fair value at December 31, 2014, based on market prices. Pooled investment earnings for 2014 were \$1,006.

**ROCK COUNTY  
LUVERNE, MINNESOTA**

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7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Deposits and Investments (Continued)

The District invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission. The investment in the pool is measured at the amortized cost per share provided by the pool which would approximate fair value.

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

Restatement of Investments, Construction in Progress, and Net Position

The January 1, 2014, balances of construction in progress and net position were increased by \$50,137 to correct a prior year understatement.

The January 1, 2014, balances of investments and net position were increased by \$145,106 to correct a prior year understatement.

	Balance at January 1, 2014	Adjustment	Balance at January 1, 2014, as restated
Investments	\$ 1,036,506	\$ 145,106	\$ 1,181,612
Construction in progress	-	50,137	50,137
Net position	6,471,934	195,243	6,667,177

**ROCK COUNTY  
LUVERNE, MINNESOTA**

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7. Component Unit Disclosures (Continued)

B. Detailed Notes

1. Assets

Deposits and Investments

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

Cash and pooled investments	\$ 710,496
Investments	824,806
Investments - restricted	<u>1,175,000</u>
Total Deposits and Investments	<u>\$ 2,710,302</u>

Petty cash and change funds	\$ 75
Checking	695,509
Savings	14,912
Certificates of deposit	<u>1,999,806</u>
Total Deposits and Investments	<u>\$ 2,710,302</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. Rock County's policy is to minimize deposit custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2014, the County's deposits were not exposed to custodial credit risk.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

1. Assets (Continued)

Receivables

Receivables as of December 31, 2014, for the Rock County Rural Water District are as follows:

	Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts receivable	\$ 1,181	\$ -
Interest	3,977	-
Due from other governments	23,559	-
Total Receivables	\$ 28,717	\$ -
Receivables - restricted Special assessments	\$ 429,827	\$ 382,322

Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance (Restated)	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land and right-of-way	\$ 106,587	\$ 3,783	\$ -	\$ 110,370
Lewis and Clark project	632,123	23,209	-	655,332
Construction in progress	50,137	376,623	-	426,760
Expansion project	21,704	-	-	21,704
Total capital assets not depreciated	\$ 810,551	\$ 403,615	\$ -	\$ 1,214,166
Capital assets depreciated				
Buildings and pumps	\$ 3,063,111	\$ 8,298	\$ -	\$ 3,071,409
Land improvements	11,649	-	-	11,649
Machinery, furniture, and equipment	355,765	48,653	-	404,418
Infrastructure - distribution system	4,117,226	72,554	-	4,189,780
Total capital assets depreciated	\$ 7,547,571	\$ 129,505	\$ -	\$ 7,677,256

**ROCK COUNTY  
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

1. Assets

Capital Assets (Continued)

	Beginning Balance (Restated)	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings and pumps	\$ 1,684,338	\$ 80,132	\$ -	\$ 1,764,470
Land improvements	1,540	291	-	1,831
Machinery, furniture, and equipment	120,174	28,208	-	148,382
Infrastructure - distribution system	<u>2,289,771</u>	<u>107,071</u>	<u>-</u>	<u>2,396,842</u>
Total accumulated depreciation	<u>\$ 4,095,823</u>	<u>\$ 215,702</u>	<u>\$ -</u>	<u>\$ 4,311,525</u>
Total capital assets depreciated, net	<u>\$ 3,451,928</u>	<u>\$ (86,197)</u>	<u>\$ -</u>	<u>\$ 3,365,731</u>
Capital Assets, Net	<u>\$ 4,262,479</u>	<u>\$ 317,418</u>	<u>\$ -</u>	<u>\$ 4,579,897</u>

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

Depreciation expense for 2014 was \$215,702.

2. Liabilities

Payables

Payables at December 31, 2014, were as follows:

Accounts payable	\$ 42,759
Contracts payable	9,765
Salaries payable	<u>12,896</u>
Total Payables	<u>\$ 65,420</u>

**ROCK COUNTY  
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

2. Liabilities (Continued)

Long-Term Debt

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

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

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2014
General obligation notes					
2000 G.O. Revenue Note	2019	\$14,000 - \$89,000	1.79	\$ 1,460,000	\$ 429,000
2007 G.O. Revenue Note	2026	\$16,000 - \$31,000	1.02	533,000	355,000
Total General Obligation Notes				<u>\$ 1,993,000</u>	<u>\$ 784,000</u>

Debt Service Requirements

Debt service requirements at December 31, 2014, were as follows:

Year Ending December 31	General Obligation Revenue Note 2000		General Obligation Revenue Note 2007	
	Principal	Interest	Principal	Interest
2015	\$ 83,000	\$ 7,679	\$ 28,000	\$ 3,621
2016	84,000	6,193	28,000	3,335
2017	86,000	4,690	29,000	3,050
2018	87,000	3,150	29,000	2,754
2019	89,000	1,593	29,000	2,458
2020 - 2024	-	-	150,000	7,793
2025 - 2026	-	-	62,000	949
Total	<u>\$ 429,000</u>	<u>\$ 23,305</u>	<u>\$ 355,000</u>	<u>\$ 23,960</u>

**ROCK COUNTY  
LUVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

2. Liabilities (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. revenue note 2000	\$ 510,000	\$ -	\$ 81,000	\$ 429,000	\$ 83,000
G.O. revenue note 2007	383,000	-	28,000	355,000	28,000
Total G.O. revenue notes	\$ 893,000	\$ -	\$ 109,000	\$ 784,000	\$ 111,000
Compensated absences	16,798	19,669	20,786	15,681	1,864
Net OPEB obligation/(asset)	600	727	1,764	(437)	-
Total Long-Term Liabilities	\$ 910,398	\$ 20,396	\$ 131,550	\$ 799,244	\$ 112,864

C. Pension Plans

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

The Rock County Rural Water District's contributions for the years ending December 31, 2014, 2013, and 2012, were \$14,947, \$14,549, and \$13,278, respectively. These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

**ROCK COUNTY  
LIVERNE, MINNESOTA**

7. Component Unit Disclosures (Continued)

D. Other Postemployment Benefits

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

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

ARC	\$	754
Interest on net OPEB obligation		27
Adjustment to ARC		(54)
		(54)
Annual OPEB cost (expense)	\$	727
Contributions made during the year		(1,764)
		(1,764)
Increase (decrease) in net OPEB obligation	\$	(1,037)
Net OPEB Obligation/(Asset) - Beginning of Year		600
		600
Net OPEB Obligation/(Asset) - End of Year	\$	(437)
		(437)

The 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, 2014, 2013 and 2012, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)
December 31, 2012	\$ 1,655	\$ 438	26.47%	\$ 1,217
December 31, 2013	733	1,350	184.17	600
December 31, 2014	727	1,764	242.64	(437)

**ROCK COUNTY  
LUVERNE, MINNESOTA**

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7. Component Unit Disclosures (Continued)

E. 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 District carries commercial insurance for property and casualty insurance. The District is covered under Rock County's policy for workers' compensation with MCIT. For group health benefits, the District is covered under the County's joint powers agreement with the Southwest/West Central Service Cooperative. For all other risk, the County 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.

F. Subsequent Events

On May 11, 2015, the Rock County Rural Water District Board of Directors accepted a \$3,412,500 bid, pending United States Department of Agriculture (USDA) concurrence, for Phase II of the water improvement project.

On July 1, 2015, the Rock County Rural Water District issued 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 USDA Rural Development loan. The bonds were issued to finance water improvement projects for the Rock County Rural Water District.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**ROCK COUNTY  
LIVERNE, MINNESOTA**

*EXHIBIT A-1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,628,347	\$ 2,628,347	\$ 3,220,596	\$ 592,249
Licenses and permits	5,250	5,250	7,645	2,395
Intergovernmental	482,342	482,342	793,164	310,822
Charges for services	1,280,630	1,280,630	1,315,925	35,295
Fines and forfeits	1,200	1,200	26,740	25,540
Gifts and contributions	-	-	10,013	10,013
Investment earnings	65,000	65,000	40,733	(24,267)
Miscellaneous	171,025	171,025	185,019	13,994
<b>Total Revenues</b>	<b>\$ 4,633,794</b>	<b>\$ 4,633,794</b>	<b>\$ 5,599,835</b>	<b>\$ 966,041</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 188,696	\$ 188,696	\$ 263,364	\$ (74,668)
District Court	-	-	25,260	(25,260)
Law library	-	-	9,946	(9,946)
County administration	152,470	152,470	165,364	(12,894)
Auditor-Treasurer	324,913	324,913	315,727	9,186
Elections	42,142	42,142	38,796	3,346
Accounting and auditing	45,000	45,000	59,209	(14,209)
Data processing	196,574	196,574	211,324	(14,750)
Attorney	174,057	174,057	173,819	238
Land records	372,237	372,237	371,019	1,218
Recorder's technology	23,500	23,500	48,247	(24,747)
Buildings and plant	261,468	261,468	299,659	(38,191)
Veterans service officer	30,642	30,642	35,520	(4,878)
Transportation	313,000	313,000	284,478	28,522
Heartland building	-	-	15,137	(15,137)
Veterans museum	-	-	100	(100)
Other general government	27,308	27,308	13,844	13,464
<b>Total general government</b>	<b>\$ 2,152,007</b>	<b>\$ 2,152,007</b>	<b>\$ 2,330,813</b>	<b>\$ (178,806)</b>

**ROCK COUNTY  
LIVERNE, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 1,689,508	\$ 1,689,508	\$ 1,806,538	\$ (117,030)
Coroner	10,000	10,000	13,735	(3,735)
Sheriff's contingency	-	-	11,800	(11,800)
Forfeitures	-	-	1,671	(1,671)
Gun permits	-	-	438	(438)
E-911 system	-	-	31,172	(31,172)
Prisoner care	78,000	78,000	88,451	(10,451)
Emergency services	36,436	36,436	46,606	(10,170)
<b>Total public safety</b>	<b>\$ 1,813,944</b>	<b>\$ 1,813,944</b>	<b>\$ 2,000,411</b>	<b>\$ (186,467)</b>
<b>Health</b>				
Community health	<b>\$ 16,800</b>	<b>\$ 16,800</b>	<b>\$ 16,800</b>	<b>\$ -</b>
<b>Culture and recreation</b>				
Historical society	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Minnesota trails	-	-	23,193	(23,193)
Senior citizens	26,204	26,204	21,782	4,422
Library	276,248	276,248	273,439	2,809
Heritage museum	65,407	65,407	52,097	13,310
Library donations	-	-	2,400	(2,400)
Children's library books	-	-	3,487	(3,487)
Other	5,920	5,920	5,920	-
<b>Total culture and recreation</b>	<b>\$ 383,779</b>	<b>\$ 383,779</b>	<b>\$ 392,318</b>	<b>\$ (8,539)</b>
<b>Conservation of natural resources</b>				
Extension	\$ 125,073	\$ 125,073	\$ 112,249	\$ 12,824
Agricultural society	16,000	16,000	16,000	-
<b>Total conservation of natural resources</b>	<b>\$ 141,073</b>	<b>\$ 141,073</b>	<b>\$ 128,249</b>	<b>\$ 12,824</b>
<b>Economic development</b>				
Tourism	<b>\$ 1,940</b>	<b>\$ 1,940</b>	<b>\$ 1,940</b>	<b>\$ -</b>

**ROCK COUNTY  
LIVERNE, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures (Continued)</b>				
<b>Intergovernmental</b>				
DEED	\$ -	\$ -	\$ 60,000	\$ (60,000)
Community Corrections	78,949	78,949	78,949	-
Health	60,544	60,544	58,122	2,422
<b>Total intergovernmental</b>	<b>\$ 139,493</b>	<b>\$ 139,493</b>	<b>\$ 197,071</b>	<b>\$ (57,578)</b>
<b>Capital outlay</b>				
General government	\$ -	\$ -	\$ 59,635	\$ (59,635)
<b>Debt Service</b>				
Principal	\$ -	\$ -	\$ 1,217,104	\$ (1,217,104)
Interest	-	-	13,989	(13,989)
Administrative (fiscal) charges	-	-	495	(495)
Bond issuance costs	-	-	74,359	(74,359)
<b>Total debt service</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,305,947</b>	<b>\$ (1,305,947)</b>
<b>Total Expenditures</b>	<b>\$ 4,649,036</b>	<b>\$ 4,649,036</b>	<b>\$ 6,433,184</b>	<b>\$ (1,784,148)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (15,242)</b>	<b>\$ (15,242)</b>	<b>\$ (833,349)</b>	<b>\$ (818,107)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	\$ -	\$ -	\$ (2,165,886)	\$ (2,165,886)
Bonds issued	-	-	3,970,000	3,970,000
Premium on bonds issued	-	-	108,605	108,605
Capital lease purchases	-	-	85,567	85,567
Proceeds from the sale of capital assets	500	500	-	(500)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 500</b>	<b>\$ 500</b>	<b>\$ 1,998,286</b>	<b>\$ 1,997,786</b>
<b>Net Change in Fund Balance</b>	<b>\$ (14,742)</b>	<b>\$ (14,742)</b>	<b>\$ 1,164,937</b>	<b>\$ 1,179,679</b>
<b>Fund Balance - January 1</b>	<b>5,871,490</b>	<b>5,871,490</b>	<b>5,871,490</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,856,748</b>	<b>\$ 5,856,748</b>	<b>\$ 7,036,427</b>	<b>\$ 1,179,679</b>

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

**ROCK COUNTY  
LIVERNE, MINNESOTA**

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
PUBLIC WORKS SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 811,181	\$ 811,181	\$ 801,065	\$ (10,116)
Intergovernmental	1,180,646	1,180,646	5,471,444	4,290,798
Charges for services	425,950	425,950	487,387	61,437
Investment earnings	10,000	10,000	5,446	(4,554)
Miscellaneous	6,000	6,000	32,053	26,053
<b>Total Revenues</b>	<b>\$ 2,433,777</b>	<b>\$ 2,433,777</b>	<b>\$ 6,797,395</b>	<b>\$ 4,363,618</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 247,569	\$ 247,569	\$ 209,758	\$ 37,811
Maintenance	933,399	933,399	1,888,549	(955,150)
Construction	230,091	230,091	6,402,431	(6,172,340)
Equipment and maintenance shops	564,029	564,029	693,130	(129,101)
Material and services for resale	25,547	25,547	30,492	(4,945)
Other	109,092	109,092	87,574	21,518
<b>Total highways and streets</b>	<b>\$ 2,109,727</b>	<b>\$ 2,109,727</b>	<b>\$ 9,311,934</b>	<b>\$ (7,202,207)</b>
<b>Sanitation</b>				
Solid waste	324,050	324,050	428,370	(104,320)
<b>Intergovernmental</b>				
Highways and streets	-	-	283,942	(283,942)
<b>Total Expenditures</b>	<b>\$ 2,433,777</b>	<b>\$ 2,433,777</b>	<b>\$ 10,024,246</b>	<b>\$ (7,590,469)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (3,226,851)</b>	<b>\$ (3,226,851)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	2,165,886	(2,165,886)
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,060,965)</b>	<b>\$ (5,392,737)</b>
<b>Fund Balance - January 1</b>	<b>1,103,545</b>	<b>1,103,545</b>	<b>1,103,545</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>(46,413)</b>	<b>(46,413)</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,103,545</b>	<b>\$ 1,103,545</b>	<b>\$ (3,833)</b>	<b>\$ (5,439,150)</b>

**ROCK COUNTY  
LIVERNE, MINNESOTA**

*EXHIBIT A-3*

**BUDGETARY COMPARISON SCHEDULE  
FAMILY SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,085,309	\$ 1,085,309	\$ 1,062,315	\$ (22,994)
Intergovernmental	<u>37,131</u>	<u>37,131</u>	<u>58,686</u>	<u>21,555</u>
<b>Total Revenues</b>	<b><u>\$ 1,122,440</u></b>	<b><u>\$ 1,122,440</u></b>	<b><u>\$ 1,121,001</u></b>	<b><u>\$ (1,439)</u></b>
<b>Expenditures</b>				
<b>Current</b>				
General government	\$ -	\$ -	\$ 152,689	\$ (152,689)
<b>Intergovernmental</b>				
Human Services	<u>1,122,440</u>	<u>1,122,440</u>	<u>1,122,489</u>	<u>(49)</u>
<b>Total Expenditures</b>	<b><u>\$ 1,122,440</u></b>	<b><u>\$ 1,122,440</u></b>	<b><u>\$ 1,275,178</u></b>	<b><u>\$ (152,738)</u></b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (154,177)</b>	<b>\$ (154,177)</b>
<b>Fund Balance - January 1</b>	<u>257,973</u>	<u>257,973</u>	<u>257,973</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<b><u>\$ 257,973</u></b>	<b><u>\$ 257,973</u></b>	<b><u>\$ 103,796</u></b>	<b><u>\$ (154,177)</u></b>

**ROCK COUNTY  
LUVERNE, MINNESOTA**

*EXHIBIT A-4*

**BUDGETARY COMPARISON SCHEDULE  
LAND MANAGEMENT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 25,058	\$ 25,058	\$ 25,248	\$ 190
Special assessments	209,306	209,306	214,103	4,797
Licenses and permits	36,816	36,816	33,042	(3,774)
Intergovernmental	170,622	170,622	315,053	144,431
Charges for services	2,875	2,875	1,926	(949)
Investment earnings	-	-	38	38
Miscellaneous	10,538	10,538	18,565	8,027
<b>Total Revenues</b>	<b>\$ 455,215</b>	<b>\$ 455,215</b>	<b>\$ 607,975</b>	<b>\$ 152,760</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Planning and zoning	<b>\$ 40,984</b>	<b>\$ 40,984</b>	<b>\$ 40,927</b>	<b>\$ 57</b>
<b>Sanitation</b>				
Recycling	\$ 113,553	\$ 113,553	\$ 130,363	\$ (16,810)
Hazardous waste	27,426	27,426	25,454	1,972
Environmental office	169,996	169,996	170,936	(940)
<b>Total sanitation</b>	<b>\$ 310,975</b>	<b>\$ 310,975</b>	<b>\$ 326,753</b>	<b>\$ (15,778)</b>
<b>Conservation of natural resources</b>				
Agricultural inspection	\$ 11,742	\$ 11,742	\$ 9,407	\$ 2,335
Water planning	162,308	162,308	283,383	(121,075)
<b>Total conservation of natural resources</b>	<b>\$ 174,050</b>	<b>\$ 174,050</b>	<b>\$ 292,790</b>	<b>\$ (118,740)</b>
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 14,979	\$ (14,979)
Interest	-	-	3,028	(3,028)
<b>Total debt service</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18,007</b>	<b>\$ (18,007)</b>
<b>Total Expenditures</b>	<b>\$ 526,009</b>	<b>\$ 526,009</b>	<b>\$ 678,477</b>	<b>\$ (152,468)</b>

**ROCK COUNTY  
LUVERNE, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE  
LAND MANAGEMENT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Excess of Revenues Over (Under) Expenditures</b>	\$ (70,794)	\$ (70,794)	\$ (70,502)	\$ 292
<b>Other Financing Sources (Uses)</b>				
Loans issued	-	-	28,071	28,071
<b>Net Change in Fund Balance</b>	\$ (70,794)	\$ (70,794)	\$ (42,431)	\$ 28,363
<b>Fund Balance - January 1</b>	<u>886,079</u>	<u>886,079</u>	<u>886,079</u>	-
<b>Fund Balance - December 31</b>	<u>\$ 815,285</u>	<u>\$ 815,285</u>	<u>\$ 843,648</u>	<u>\$ 28,363</u>

**ROCK COUNTY  
LUVERNE, MINNESOTA**

*EXHIBIT A-5*

**BUDGETARY COMPARISON SCHEDULE  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Special assessments	\$ 94,040	\$ 94,040	\$ 75,798	\$ (18,242)
<b>Expenditures</b>				
<b>Current</b>				
Conservation of natural resources	\$ -	\$ -	\$ 4,525	\$ (4,525)
<b>Debt service</b>				
Principal	\$ 70,000	\$ 70,000	\$ 70,000	\$ -
Interest	24,040	24,040	17,038	7,002
Administrative (fiscal) charges	-	-	495	(495)
<b>Total debt service</b>	<u>\$ 94,040</u>	<u>\$ 94,040</u>	<u>\$ 87,533</u>	<u>\$ 6,507</u>
<b>Total Expenditures</b>	<u>\$ 94,040</u>	<u>\$ 94,040</u>	<u>\$ 92,058</u>	<u>\$ 1,982</u>
<b>Net Change in Fund Balance</b>	\$ -	\$ -	\$ (16,260)	\$ (16,260)
<b>Fund Balance - January 1</b>	<u>305,542</u>	<u>305,542</u>	<u>305,542</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u>\$ 305,542</u>	<u>\$ 305,542</u>	<u>\$ 289,282</u>	<u>\$ (16,260)</u>

**ROCK COUNTY  
LUVERNE, MINNESOTA**

**EXHIBIT A-6**

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2009	\$ -	\$ 513,365	\$ 513,365	0.0%	\$ 3,800,699	13.5%
January 1, 2012	-	399,473	399,473	0.0	3,636,645	11.0

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**ROCK COUNTY  
LIVERNE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2014

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund, Public Works Special Revenue Fund, Family Services Special Revenue Fund, Land Management Special Revenue Fund, Ditch Special Revenue Fund, and the Debt Service Fund. The expenditure budget is approved at the fund level.

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

2. Budget Basis of Accounting

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

3. Budget Amendments

The County did not amend the budgets for the General Fund or any of the special revenue funds.

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Budget	Excess
General Fund	\$ 6,433,184	\$ 4,649,036	\$ 1,784,148
Special Revenue Funds			
Public Works	10,024,246	2,433,777	7,590,469
Family Services	1,275,178	1,122,440	152,738
Land Management	678,477	526,009	152,468

**ROCK COUNTY  
LUVERNE, MINNESOTA**

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5. Other Postemployment Benefits - Funding Status

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

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

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

2012 Actuarial Assumptions

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

**SUPPLEMENTARY INFORMATION**

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**GOVERNMENTAL FUNDS**

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**ROCK COUNTY  
LIVERNE, MINNESOTA**

*EXHIBIT B-1*

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 330,396	\$ 330,396	\$ 323,397	\$ (6,999)
Intergovernmental	11,304	11,304	17,866	6,562
<b>Total Revenues</b>	<b>\$ 341,700</b>	<b>\$ 341,700</b>	<b>\$ 341,263</b>	<b>\$ (437)</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 271,460	\$ 271,460	\$ 256,460	\$ 15,000
Interest	70,240	70,240	70,090	150
Administrative (fiscal) charges	-	-	930	(930)
<b>Total Expenditures</b>	<b>\$ 341,700</b>	<b>\$ 341,700</b>	<b>\$ 327,480</b>	<b>\$ 14,220</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 13,783</b>	<b>\$ 13,783</b>
<b>Fund Balance - January 1</b>	<b>356,954</b>	<b>356,954</b>	<b>356,954</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 356,954</b>	<b>\$ 356,954</b>	<b>\$ 370,737</b>	<b>\$ 13,783</b>

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**ROCK COUNTY  
LUVERNE, MINNESOTA**

AGENCY FUNDS

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

Big Buddies - to account for the collection and disbursement of funds for the Big Buddies program.

Rock Youth Fellowship - to account for the collection and disbursement of funds for the Rock Youth Fellowship program.

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

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**ROCK COUNTY  
LIVERNE, MINNESOTA**

*EXHIBIT C-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>ROCK NOBLES COMMUNITY CORRECTIONS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 242,842	\$ 733,139	\$ 737,717	\$ 238,264
<b><u>Liabilities</u></b>				
Salaries payable	\$ -	\$ 30,311	\$ -	\$ 30,311
Due to other governments	242,842	702,828	737,717	207,953
<b>Total Liabilities</b>	<b>\$ 242,842</b>	<b>\$ 733,139</b>	<b>\$ 737,717</b>	<b>\$ 238,264</b>
 <b><u>BIG BUDDIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 2,945	\$ 9,488	\$ 10,901	\$ 1,532
<b><u>Liabilities</u></b>				
Due to other governments	\$ 2,945	\$ 9,488	\$ 10,901	\$ 1,532
 <b><u>ROCK YOUTH FELLOWSHIP</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 8,970	\$ 8,442	\$ 528
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 8,970	\$ 8,442	\$ 528

**ROCK COUNTY  
LIVERNE, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 127,478</u>	<u>\$ 15,084,249</u>	<u>\$ 15,030,575</u>	<u>\$ 181,152</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 127,478</u>	<u>\$ 15,084,249</u>	<u>\$ 15,030,575</u>	<u>\$ 181,152</u>
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 373,265</u>	<u>\$ 15,835,846</u>	<u>\$ 15,787,635</u>	<u>\$ 421,476</u>
<b><u>Liabilities</u></b>				
Salaries payable	\$ -	\$ 30,311	\$ -	\$ 30,311
Due to other governments	<u>373,265</u>	<u>15,805,535</u>	<u>15,787,635</u>	<u>391,165</u>
<b>Total Liabilities</b>	<u>\$ 373,265</u>	<u>\$ 15,835,846</u>	<u>\$ 15,787,635</u>	<u>\$ 421,476</u>

## **OTHER SCHEDULES**

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**ROCK COUNTY  
LUCERNE, MINNESOTA**

*EXHIBIT D-1*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Primary Government</b>	<b>Discretely Presented Component Unit Rock County Rural Water District</b>
<b>Appropriations and Shared Revenue</b>		
<b>State</b>		
Highway users tax	\$ 3,969,123	\$ -
Market value credit	88,615	-
PERA rate reimbursement	14,477	611
Disparity reduction aid	7,135	-
County program aid	164,945	-
Police aid	76,160	-
Enhanced 911	80,798	-
Select Committee on Recycling and the Environment (SCORE)	63,803	-
	<b>\$ 4,465,056</b>	<b>\$ 611</b>
<b>Payments</b>		
<b>Local</b>		
Payments in lieu of taxes	\$ 65,904	\$ -
Local contributions	28,416	-
	<b>\$ 94,320</b>	<b>\$ -</b>
<b>Grants</b>		
<b>State</b>		
Minnesota Department/Board of Employment and Economic Development	\$ 60,000	\$ -
Health	-	10,000
Natural Resources	23,193	-
Public Safety	216,922	5,890
Revenue	3,529	-
Transportation	502,750	-
Water and Soil Resources	223,100	-
Veterans Affairs	7,500	-
	<b>\$ 1,036,994</b>	<b>\$ 15,890</b>
<b>Federal</b>		
Department of Agriculture	\$ 4,279	\$ -
Health and Human Services	8,070	-
Justice	20,740	-
Transportation	273,108	-
Homeland Security	753,646	17,670
	<b>\$ 1,059,843</b>	<b>\$ 17,670</b>
<b>Total state and federal grants</b>	<b>\$ 2,096,837</b>	<b>\$ 33,560</b>
<b>Total Intergovernmental Revenue</b>	<b>\$ 6,656,213</b>	<b>\$ 34,171</b>

**ROCK COUNTY  
LUVERNE, MINNESOTA**

*EXHIBIT D-2*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Southwest Health and Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ <u>4,279</u>
<b>U.S. Department of Justice</b>		
Direct Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to Units of Local Government - ARRA	16.804	\$ <u>20,740</u>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 100,196
Formula Grants for Rural Areas	20.509	75,941
Passed Through City of Worthington Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	<u>6,964</u>
<b>Total U.S. Department of Transportation</b>		<b>\$ <u>183,101</u></b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Southwest Health and Human Services Temporary Assistance for Needy Families	93.558	\$ 1,040
Child Support Enforcement	93.563	3,775
Foster Care - Title IV-E	93.658	51
Children's Health Insurance Program	93.767	2,915
Medical Assistance Program	93.778	<u>289</u>
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ <u>8,070</u></b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	\$ 17,852
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	773,478
Hazard Mitigation Grant	97.039	<u>21,579</u>
<b>Total U.S. Department of Homeland Security</b>		<b>\$ <u>812,909</u></b>
<b>Total Federal Awards</b>		<b>\$ <u>1,029,099</u></b>

**ROCK COUNTY  
LIVERNE, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Rock County and its discretely presented component unit, the Rock County Rural Water District. The County'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 Rock County under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Rock County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Rock County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	
Primary Government - Rock County	\$ 1,059,843
Grants received more than 60 days after year-end, considered unavailable revenue in 2014	
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)	41,593
Unavailable revenue in 2013, recognized as revenue in 2014	
Highway Planning and Construction (CFDA #20.205)	(90,007)
Component Unit - Rock County Rural Water District	<u>17,670</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 1,029,099</u>

**ROCK COUNTY  
LUVERNE, MINNESOTA**

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5. Subrecipients

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2014.

6. American Recovery and Reinvestment Act

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

**ROCK COUNTY RURAL WATER DISTRICT**

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**ROCK COUNTY  
LIVERNE, MINNESOTA**

**EXHIBIT E-1**

**ROCK COUNTY RURAL WATER DISTRICT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

<u>Assets</u>	
<b>Current assets</b>	
Cash and pooled investments	\$ 710,496
Investments	824,806
Accounts receivable	1,181
Accrued interest receivable	3,977
Due from other governments	23,559
Inventories	116,509
Prepaid items	9,229
	<hr/>
<b>Total current assets</b>	<b>\$ 1,689,757</b>
<b>Restricted assets</b>	
Investments	\$ 1,175,000
Receivables	429,827
	<hr/>
<b>Total restricted assets</b>	<b>\$ 1,604,827</b>
<b>Noncurrent assets</b>	
Other postemployment benefits (OPEB) receivable	\$ 437
Capital assets	
Non-depreciable capital assets	1,214,166
Depreciable capital assets - net of accumulated depreciation	3,365,731
	<hr/>
<b>Total noncurrent assets</b>	<b>\$ 4,580,334</b>
<b>Total Assets</b>	<b>\$ 7,874,918</b>

**ROCK COUNTY  
LUVERNE, MINNESOTA**

**EXHIBIT E-1  
(Continued)**

**ROCK COUNTY RURAL WATER DISTRICT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

**Liabilities**

**Current liabilities**

Accounts payable	\$ 42,759
Salaries payable	12,896
Contracts payable	9,765
Accrued interest payable	3,767
Compensated absences	1,864
Customer deposits	3,447
Notes payable	111,000

**Total current liabilities** **\$ 185,498**

**Noncurrent liabilities**

Compensated absences	\$ 13,817
Notes payable	673,000

**Total noncurrent liabilities** **\$ 686,817**

**Total Liabilities** **\$ 872,315**

**Net Position**

Net investment in capital assets	\$ 3,795,898
Restricted for repairs and upgrades to distribution system	1,604,827
Unrestricted	1,601,878

**Total Net Position** **\$ 7,002,603**

**ROCK COUNTY  
LUVERNE, MINNESOTA**

***EXHIBIT E-2***

**ROCK COUNTY RURAL WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<b>Operating Revenues</b>	
Charges for services	\$ 852,915
Miscellaneous	35,950
	<hr/>
<b>Total Operating Revenues</b>	<b>\$ 888,865</b>
<b>Operating Expenses</b>	
Personal services	\$ 270,272
Office expense	22,096
Operations	37,407
Materials	128,123
Utilities	86,217
Depreciation	215,702
	<hr/>
<b>Total Operating Expenses</b>	<b>\$ 759,817</b>
<b>Operating Income (Loss)</b>	<b>\$ 129,048</b>
<b>Nonoperating Revenues (Expenses)</b>	
Intergovernmental revenue	\$ 34,171
Interest on non-restricted investments	17,634
Interest on restricted investments	9,361
Interest on long-term debt	(12,458)
Lewis and Clark expense	(5,051)
	<hr/>
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 43,657</b>
<b>Income (Loss) Before Contributions</b>	<b>\$ 172,705</b>
Capital contributions	162,721
	<hr/>
<b>Change in net position</b>	<b>\$ 335,426</b>
<b>Net Position - January 1, as restated (Note 7.A.)</b>	<b>6,667,177</b>
	<hr/>
<b>Net Position - December 31</b>	<b>\$ 7,002,603</b>
	<hr/> <hr/>

**ROCK COUNTY  
LUVERNE, MINNESOTA**

*EXHIBIT E-3*

**ROCK COUNTY RURAL WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<b>Cash Flows from Operating Activities</b>	
Cash received from services	\$ 890,997
Cash paid to employees for services	(270,318)
Cash paid to suppliers for goods or services	<u>(255,070)</u>
<b>Net cash provided by (used in) operating activities</b>	<b><u>\$ 365,609</u></b>
<b>Cash Flows from Non-Capital Financing Activities</b>	
Intergovernmental	\$ 10,611
Lewis and Clark expenses	<u>(3,788)</u>
<b>Net cash provided by (used in) non-capital financing activities</b>	<b><u>\$ 6,823</u></b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Payments of long-term debt	\$ (109,000)
Interest on long-term debt	(13,036)
Capital contributions/special assessments	72,461
Acquisition of capital assets	<u>(533,120)</u>
<b>Net cash provided by (used in) capital and related financing activities</b>	<b><u>\$ (582,695)</u></b>
<b>Cash Flows from Investing Activities</b>	
Interest on non-restricted investments	\$ 35,562
Interest on restricted investments	9,694
Sale or (purchase) of non-restricted investments	<u>356,806</u>
<b>Net cash provided by (used in) investing activities</b>	<b><u>\$ 402,062</u></b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b><u>\$ 191,799</u></b>
<b>Cash and Cash Equivalents at January 1, as restated</b>	<b><u>518,697</u></b>
<b>Cash and Cash Equivalents at December 31</b>	<b><u><u>\$ 710,496</u></u></b>

**ROCK COUNTY  
LIVERNE, MINNESOTA**

**EXHIBIT E-3  
(Continued)**

**ROCK COUNTY RURAL WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

<b>Operating income (loss)</b>	<b>\$ 129,048</b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation expense	\$ 215,702
(Increase) decrease in inventories	7,946
(Increase) decrease in accounts receivable	(1,181)
(Increase) decrease in prepaid items	(6,262)
Increase (decrease) in accounts payable	23,559
Increase (decrease) in salaries payable and compensated absences	(926)
Increase (decrease) in net OPEB obligation (asset)	1,037
Increase (decrease) in customer deposits	(3,314)
<b>Total adjustments</b>	<b>\$ 236,561</b>
<b>Net Cash Provided by (Used In) Operating Activities</b>	<b>\$ 365,609</b>

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**ROCK COUNTY  
LIVERNE, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

**Financial Statements**

Type of auditor's report issued: **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? **No**

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major program is:

Disaster Grants - Public Assistance (Presidentially Declared  
Disasters)

CFDA #97.036

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2005-001

Segregation of Duties

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

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

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

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

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

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

Client's Response:

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

Finding 2011-001

Network/Application Password Controls

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

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

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

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

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

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

Client's Response:

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

ITEMS ARISING THIS YEAR

Finding 2014-001

Audit Adjustments

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

**Effect:** The following audit adjustments were necessary:

Governmental Activities

- decreased, thereby eliminated, deferred inflows of resources--unavailable revenue by \$835,784 as the related revenues (primarily for property taxes, special assessments, construction, town bridge, and highway planning) were recognized as part of prior year net position.

Ditch Special Revenue Fund

- increased special assessments receivable--noncurrent and related deferred inflows of resources--unavailable revenue by \$59,376 for amounts receivable beyond the accrual period that were not accrued by the County.

The adjustments were reviewed and approved by the appropriate County staff and are reflected in the financial statements.

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

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

Client's Response:

*Rock County will review the financial statement closing procedures and if necessary, implement steps to ensure that all significant adjustments have been made in compliance with general accepted accounting principles.*

Finding 2014-002

Approval of Disbursements

**Criteria:** Management is responsible for establishing and maintaining internal control over the various accounting cycles, including the processing of disbursements. Management is also responsible for the accuracy and completeness of all financial records and related information, including but not limited to, the controls over initiating, authorizing, recording, and processing disbursements in the general ledger system.

**Condition:** During our testing of internal control over the County's general disbursements, we noted 4 out of 25 disbursements tested did not have itemized invoices to support the expenditures.

**Context:** Adequate support for payments is a fundamental requirement of a sound accounting system. Itemized receipts are necessary to determine the date, time, and items purchased to support authorized purchases.

**Effect:** Without itemized invoices, the County is unable to verify the expenditures are appropriate. As a result of this condition, the County lacks proper internal controls over the disbursement process, increasing the risk of fraudulent disbursements.

**Cause:** The County's disbursement process was not requiring itemized invoices before making authorized payments to vendors.

**Recommendation:** We recommend the County obtain itemized invoices before authorizing payment. In addition, before vendor claims are paid, the corresponding invoice should be reviewed, then initialed and dated as approved for payment by an authorized individual.

Client's Response:

*Rock County will review invoices prior to payment to ensure they are itemized and also approved by the correct authorized individual.*

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

#### PREVIOUSLY REPORTED ITEM RESOLVED

##### **Cash Management (CFDA No. 20.205) (2013-001)**

For the U.S. Department of Transportation's Highway Planning and Construction federal award, the County requested reimbursement from the Minnesota Department of Transportation for federal program expenditures before the costs for which reimbursement was requested were paid.

##### **Resolution**

A technical interpretation requested before, but not received from the Minnesota Division of the Federal Highway Administration until after this item was reported in the prior audit, states that if the County is operating under an approved Delegated Contract Process (DCP) with the Minnesota Department of Transportation, then requests for reimbursement of federal program expenditures may be made when the costs are incurred rather than paid. We verified the County has a DCP in place. Based on this guidance, the 2013 finding is considered resolved.

#### IV. OTHER FINDINGS AND RECOMMENDATIONS

##### A. MINNESOTA LEGAL COMPLIANCE

###### ITEMS ARISING THIS YEAR

Finding 2014-003

###### Withholding Affidavit for Contractors (Form IC-134)

**Criteria:** Minnesota Stat. § 270C.66 states that, before making final settlement with any contractor under a contract requiring the employment of employees for wages by the contractor and by subcontractors, the County is required to obtain a certificate by the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minn. Stat. § 290.92.

**Condition:** During 2014, the County made final payment to five contractors for contracts involving the employment of individuals for wages by the contractor. Final payments were made on these contracts before Form IC-134, which certifies withholding compliance, was received from each of the contractors and approved by the Minnesota Department of Revenue.

**Context:** The County sustained substantial damage to its roads and bridges due to a storm event that occurred in June 2014. Final payment was made to contractors for flood damage repairs in November and December 2014.

**Effect:** Noncompliance with Minn. Stat. § 270C.66.

**Cause:** The County Highway Department believed an IC-134 should only be filed on contracts that used subcontractors.

**Recommendation:** We recommend the County obtain the required IC-134 Withholding Affidavit Form before final payment is made to contractors and subcontractors on all contracts requiring the employment of employees for wages.

###### Client's Response:

*Rock County will obtain the required IC-134 Withholding Affidavit Form before distributing any final payments to contractors.*

Finding 2014-004

Publication of County Financial Statements

**Criteria:** The County is required by Minn. Stat. § 375.17 to annually publish its financial statements in a form prescribed by the State Auditor for one issue in a duly qualified legal newspaper in the County.

**Condition:** The County did not publish the financial statements for 2013.

**Context:** The County typically defers publishing its financial statements until the audit of its financial statements is complete.

**Effect:** Noncompliance with Minn. Stat. § 375.17.

**Cause:** The County did not publish the financial statements due to staff turnover in the Auditor/Treasurer's Office.

**Recommendation:** We recommend the County publish the County's financial statements annually as required by Minn. Stat. § 375.17.

Client's Response:

*Rock County will publish the County's financial statements annually as required by statute.*

Finding 2014-005

Publication of County Board Minutes

**Criteria:** County Board minutes are required by Minn. Stat. § 375.12 to be published within 30 days of the meeting and contain the itemization of accounts required, and shall contain a statement of the total number of claims that did not exceed \$2,000 and their total dollar amount.

**Condition:** We reviewed the affidavits of publication related to publishing of the County Board minutes for 2014 and found that some of the minutes were not published in the County's official newspaper within the 30-day requirement. In addition, the minutes published did not include the total number of claims that did not exceed \$2,000 and their corresponding aggregate amount.

**Context:** Of the 12 published minutes reviewed, 11 were not published within the 30-day requirement. None of the 12 published minutes we reviewed included the total number of claims that did not exceed \$2,000 and their corresponding aggregate amount.

**Effect:** Noncompliance with Minn. Stat. § 375.12.

**Cause:** The County experienced timing difficulties with having the County Board minutes approved at the following Board meeting, as the newspaper's deadline for printing the minutes within the 30-day requirement is at noon on the same day. The County believed they were in compliance with Minn. Stat. § 375.12 when they began publishing claims over \$2,000.

**Recommendation:** We recommend the County publish its County Board minutes or summaries of the County Board minutes in compliance with Minn. Stat. § 375.12.

Client's Response:

*Rock County will work with the local newspaper staff to bring the publication requirement into compliance with statute and also include the total number of claims less than \$2,000.*

B. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the County's government-wide statement of financial position. The County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Rock County's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

### Independent Auditor's Report

Board of County Commissioners  
Rock County  
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 governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 23, 2015.

### **Internal Control Over Financial Reporting**

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

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 other items that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2005-001, 2011-001, and 2014-002 to be significant deficiencies.

### **Compliance and Other Matters**

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

### **Minnesota Legal Compliance**

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

In connection with our audit, nothing came to our attention that caused us to believe that Rock County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as items 2014-003, 2014-004, and 2014-005. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

## **Other Matters**

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the County, and it is reported for that purpose.

## **Rock County's Response to Findings**

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

## **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 23, 2015

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REBECCA OTTO  
STATE AUDITOR

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

### Independent Auditor's Report

Board of County Commissioners  
Rock County  
Luverne, Minnesota

### **Report on Compliance for Each Major Federal Program**

We have audited Rock County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2014. Rock County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for Rock County's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rock County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

***Opinion on the Major Federal Program***

In our opinion, Rock County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

**Report on Internal Control Over Compliance**

Management of Rock County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 23, 2015

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR