

STATE OF MINNESOTA

Office of the State Auditor



**Rebecca Otto
State Auditor**

**ROCK COUNTY
LIVERNE, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 2007

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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**ROCK COUNTY
LIVERNE, MINNESOTA**

For the Year Ended December 31, 2007



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

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**ROCK COUNTY
LIVERNE, MINNESOTA**

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**ROCK COUNTY
LUVERNE, MINNESOTA**

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**ROCK COUNTY
LIVERNE, MINNESOTA**

ORGANIZATION SCHEDULE
2007

Office	Name	Term Expires
Commissioners		
1st District	Kenneth Hoime	January 2009
2nd District	Richard Bakken*	January 2011
3rd District	Ronald Boyenga**	January 2009
4th District	Robert Jarchow	January 2011
5th District	Jane Wildung	January 2009
Officers		
Elected		
Attorney	Donald R. Klosterbuer	January 2011
Auditor/Treasurer	Gloria Rolfs	January 2011
Sheriff	Evan Verbrugge	January 2011
Appointed		
Administrator	Kyle J. Oldre	Indefinite
Family Services Director	Randy Ehlers	Indefinite
Highway Engineer	Mark Sehr	Indefinite
Land Records Director	Thomas Houselog	Indefinite

*Chair 2007

**Chair 2008

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Rock County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Rock County Rural Water District, which represents the amounts shown as the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed here, insofar as it relates to amounts included for the Rock County Rural Water District component unit, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the basic 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, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary comparison schedules listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of Rock County. The statement and schedules listed as supplementary information in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of Rock County. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2008 on our consideration of Rock County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 30, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**ROCK COUNTY
LIVERNE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(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, 2007. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$45,328,941, of which \$36,040,130 is invested in capital assets, net of related debt, and \$1,897,112 is restricted to specific purposes. The \$7,391,699 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net assets increased by \$2,062,569 for the year ended December 31, 2007. A large part of the increase is attributable to the decrease in accounts payable and other current liabilities. Contracts payable decreased by \$1,033,292 due to the change in the number of projects completed at year-end.
- The net cost of governmental activities for the current fiscal year was \$2,943,172. General revenues and other items totaling \$5,005,741 funded the net cost.
- The fund balances of the governmental funds increased by \$1,098,491, including a restatement. Most of the increase was due to decreased costs from 2006 in several departments.
- For the year ended December 31, 2007, the unreserved fund balance of the General Fund was \$3,477,614, or 82.5 percent, of the total General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

The government-wide statements can be found on Exhibits 1 and 2 of this report.

Fund Financial Statements

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

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

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

The County adopts an annual appropriated budget for its General Fund, Public Works Special Revenue Fund, Family Services Special Revenue Fund, Land Management Special Revenue Fund, and Debt Service Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibits 3 through 6 of this report.

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

The County reports the Rock County Rural Water District as a discretely presented component unit. The Rock County Rural Water District has separately issued financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$45,328,941 at the close of 2007. The largest portion of the net assets (79.5 percent) reflects its 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.

Table 1
Net Assets

	Governmental Activities	
	2007	2006 (Restated)
Assets		
Current and other assets	\$ 10,256,609	\$ 9,258,438
Capital assets	38,065,246	38,079,748
Total Assets	<u>\$ 48,321,855</u>	<u>\$ 47,338,186</u>
Liabilities		
Long-term liabilities	\$ 2,537,827	\$ 2,672,740
Current liabilities	455,087	1,399,074
Total Liabilities	<u>\$ 2,992,914</u>	<u>\$ 4,071,814</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 36,040,130	\$ 35,892,187
Restricted	1,897,112	876,164
Unrestricted	7,391,699	6,498,021
Total Net Assets	<u>\$ 45,328,941</u>	<u>\$ 43,266,372</u>

(Unaudited)

Page 6

Unrestricted net assets--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--are 16.3 percent of the net assets.

Governmental Activities

The County's governmental activities increased net assets by 4.8 percent (\$45,328,941 for 2007 compared to \$43,266,372 for 2006). Key elements in this increase in net assets are as follows:

Table 2
Changes in Net Assets

	Governmental Activities	
	2007	2006 (Restated)
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 1,959,822	\$ 2,038,158
Operating grants and contributions	4,714,265	4,463,712
Capital grants and contributions	985,060	1,842,408
General revenues		
Property taxes	3,073,733	2,941,385
Unrestricted state aid	1,345,391	1,402,784
Investment earnings	319,886	364,186
Other	266,731	162,994
Total Revenues	\$ 12,664,888	\$ 13,215,627
Expenses		
General government	\$ 2,076,269	\$ 2,070,566
Public safety	1,810,586	1,741,685
Highways and streets	2,860,760	4,320,989
Sanitation	482,105	476,333
Human services	2,621,211	2,371,170
Health	131,132	108,703
Culture and recreation	236,898	211,061
Conservation of natural resources	296,014	277,400
Economic development	1,900	1,900
Interest	85,444	104,832
Total Expenses	\$ 10,602,319	\$ 11,684,639
Change in Net Assets	\$ 2,062,569	\$ 1,530,988
Net Assets - January 1, Restated	43,266,372	41,735,384
Net Assets - December 31	\$ 45,328,941	\$ 43,266,372

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$7,974,140, an increase of \$1,098,491 in comparison with the prior year. Of the combined ending fund balances, \$7,582,272 represents unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law, grant agreements, or bond covenants.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unreserved fund balance of \$3,477,614. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund unreserved fund balance represents 82.5 percent of total General Fund expenditures. During 2007, the fund balance increased by \$129,186. The primary reason for this increase was due to greater than expected increases in investment earnings and insurance dividends.

The Public Works Special Revenue Fund had an unreserved fund balance of \$1,709,039 at fiscal year-end, representing 63.9 percent of its annual expenditures. The ending fund balance increased \$689,413 during 2007, primarily due to the decrease in net costs for road construction projects.

The Family Services Special Revenue Fund had an unreserved fund balance of \$1,312,350 at fiscal year-end, representing 50.0 percent of its annual expenditures. The ending fund balance increased \$5,985 during 2007, primarily due to greater than anticipated revenues.

The Land Management Special Revenue Fund had an unreserved fund balance of \$958,456 at fiscal year-end. The ending fund balance increased \$82,626 during 2007, primarily due to less spending in sanitation costs and increases in permit fees.

The Ditch Special Revenue Fund had a deficit unreserved fund balance of \$21,279 at fiscal year-end. The ending fund balance decreased \$43,245 during 2007, primarily due to the ditches needing more maintenance.

Governmental Activities

The County's total revenues were \$12,664,888. Table 3 presents the percent of total County revenues by source for the year ended December 31, 2007.

**Table 3
Total County Revenues**

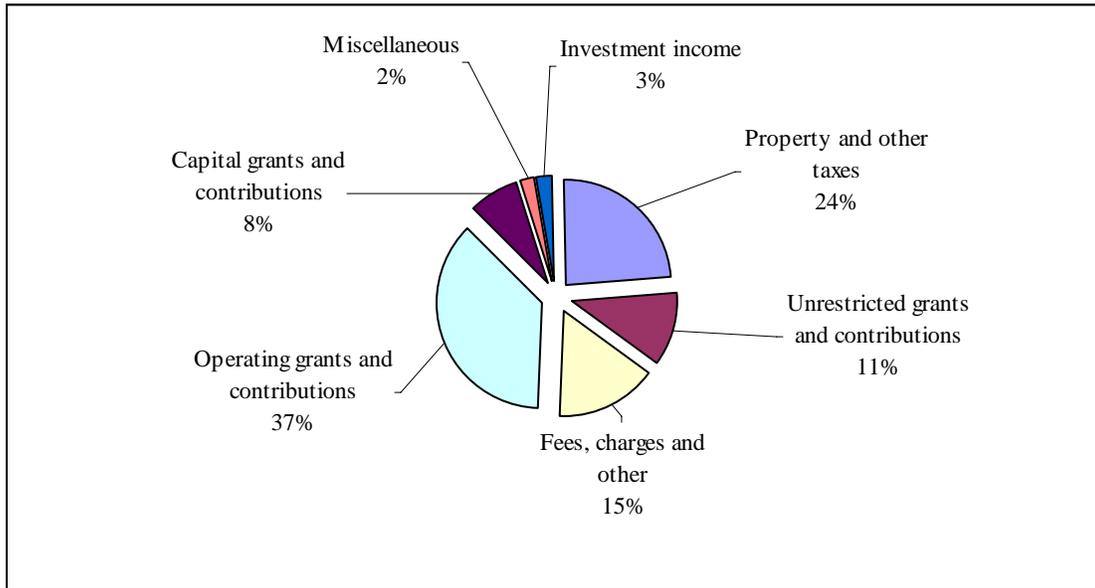
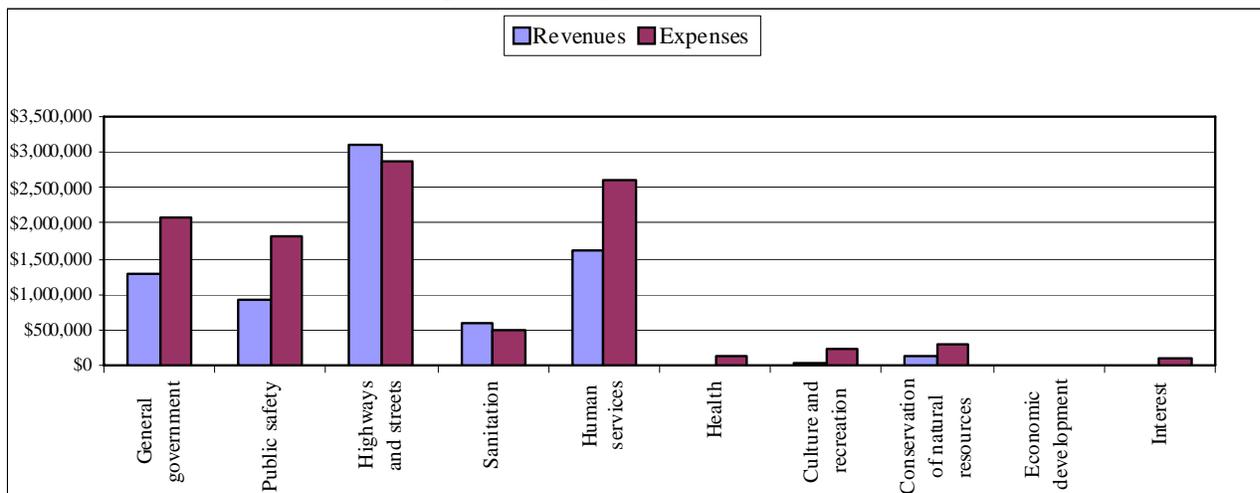


Table 4 presents the cost and revenue of each program as well as the County's program revenues. Total revenues for the County were \$12,664,888, while total expenses were \$10,602,319. This reflects a \$2,062,569 increase in net assets for the year ended December 31, 2007.

**Table 4
Expenses and Program Revenues - 2007**



The cost of all governmental activities this year was \$10,602,319. However, as shown on the Statement of Activities on Exhibit 2, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$3,073,733 because some of the costs were paid by those who directly benefited from the programs (\$1,959,822) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,699,325). The County paid for the remaining “public benefit” portion of governmental activities with \$5,005,741 in general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs and interest.

Table 5 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 5
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Highways and streets	\$ 2,860,760	\$ 4,320,989	\$ (248,964)	\$ (4,445)
Human services	2,621,211	2,371,170	1,009,450	897,348
General government	2,076,269	2,070,566	785,984	1,230,250
Public safety	1,810,586	1,741,685	880,093	726,100
All others	1,233,493	1,165,174	516,609	476,053
Totals	<u>\$ 10,602,319</u>	<u>\$ 11,669,584</u>	<u>\$ 2,943,172</u>	<u>\$ 3,325,306</u>

General Fund Budgetary Highlights

No differences between the original General Fund expenditure budget and final amended budget were experienced in 2007.

Actual General Fund revenues exceeded final budgeted revenues by \$602,792, primarily due to a greater than expected return on investments and greater than expected grants and other intergovernmental aid. Actual expenditures were more than budgeted expenditures by \$153,346.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2007, totaled \$38,065,246 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets decreased \$14,502, or 0.04 percent, from the previous year. The major capital asset events were:

\$ 600,000	Veterans' memorial
262,777	Construction in progress - bridge
183,519	Purchase of machinery and equipment
149,249	Construction of highways and streets

Table 6
Capital Assets at Year-End
Net of Depreciation

	<u>2007</u>	<u>2006</u>
Land	\$ 1,199,945	\$ 1,177,845
Construction in progress	262,777	1,886,095
Works of art and historical treasures	600,000	-
Infrastructure	29,204,442	29,880,429
Buildings	3,734,617	2,147,207
Land improvements	203,924	-
Machinery, equipment, and vehicles	<u>2,859,541</u>	<u>2,988,172</u>
Total	<u>\$ 38,065,246</u>	<u>\$ 38,079,748</u>

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

Long-Term Debt

At the end of the current fiscal year, the County had total net outstanding debt of \$2,537,827, which was backed by the full faith and credit of the County.

Table 7
Outstanding Debt

	<u>2007</u>	<u>2006</u>
General obligation bonds	\$ 1,737,692	\$ 1,841,161
Capital leases	260,116	317,561
Compensated absences payable	<u>540,019</u>	<u>514,018</u>
Total	<u>\$ 2,537,827</u>	<u>\$ 2,672,740</u>

The County's debt related to general obligation bonds decreased by \$103,469 (5.6 percent) during the fiscal year.

Minnesota statutes limit the amount of debt a county may levy to two percent of its total market value. At the end of 2007, the County's outstanding debt was 0.23 percent of its total estimated market value.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- The unemployment rate for Rock County at the end of 2007 was 3.1 percent. This compares favorably with the state unemployment rate of 4.4 percent.
- On December 18, 2007, the Rock County Board of Commissioners approved the 2008 budget and adopted a property tax levy of \$3,654,847, which represents a 4.99 percent increase over the 2007 property tax levy of \$3,481,138.

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, Gloria F. Rolfs, Rock County Courthouse, 204 East Brown Street, P. O. Box 509, Luverne, Minnesota 56156-0509.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 4,843,419	\$ 92,917
Investments	2,848,500	932,979
Investments - restricted	-	1,287,133
Receivables - net	2,345,807	27,564
Receivables - restricted	-	547,306
Inventories	184,633	80,019
Prepaid items	14,943	4,049
Deferred debt issuance costs	19,307	-
Capital assets		
Non-depreciable capital assets	2,062,722	722,261
Depreciable capital assets - net of accumulated depreciation	36,002,524	3,847,312
Total Assets	\$ 48,321,855	\$ 7,541,540
<u>Liabilities</u>		
Accounts payable and other current liabilities	\$ 389,395	\$ 79,146
Accrued interest payable	32,618	8,463
Customer deposits - current	33,074	-
Long-term liabilities		
Due within one year	174,096	89,000
Due in more than one year	2,363,731	1,412,000
Total Liabilities	\$ 2,992,914	\$ 1,588,609
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 36,040,130	\$ 3,060,110
Restricted for		
Highways and streets	1,792,481	-
Public safety	51,741	-
Other purposes	52,890	-
Unrestricted	7,391,699	2,892,821
Total Net Assets	\$ 45,328,941	\$ 5,952,931

**ROCK COUNTY
LIVERNE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 2,076,269	\$ 377,605
Public safety	1,810,586	775,655
Highways and streets	2,860,760	37,232
Sanitation	482,105	524,023
Human services	2,621,211	213,391
Health	131,132	-
Culture and recreation	236,898	-
Conservation of natural resources	296,014	31,916
Economic development	1,900	-
Interest	85,444	-
	\$ 10,602,319	\$ 1,959,822
Total Governmental Activities		
Component Unit		
Rock County Rural Water District	\$ 642,603	\$ 627,200

General Revenues

Property taxes
Tax increment financing
Gravel taxes
Other taxes
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Investment earnings
Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - Beginning, as restated (Note 1.E.)

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Discretely Presented Component Unit
\$ 312,680	\$ 600,000	\$ (785,984)	
154,838	-	(880,093)	
2,687,432	385,060	248,964	
52,039	-	93,957	
1,398,370	-	(1,009,450)	
-	-	(131,132)	
13,668	-	(223,230)	
95,238	-	(168,860)	
-	-	(1,900)	
-	-	(85,444)	
\$ 4,714,265	\$ 985,060	\$ (2,943,172)	
\$ 49,661	\$ 97,082		\$ 131,340
		\$ 3,073,733	\$ -
		79,790	-
		27,353	-
		9,207	-
		47,239	-
		1,345,391	-
		319,886	39,625
		103,142	-
		\$ 5,005,741	\$ 39,625
		\$ 2,062,569	\$ 170,965
		43,266,372	5,781,966
		\$ 45,328,941	\$ 5,952,931

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**ROCK COUNTY
LUVERNE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	<u>General</u>	<u>Public Works</u>	<u>Family Services</u>
<u>Assets</u>			
Cash and pooled investments	\$ 1,627,129	\$ 783,725	\$ 1,230,434
Undistributed cash in agency funds	45,388	12,809	18,544
Petty cash and change funds	1,275	75	-
Investments	1,980,500	860,000	-
Taxes receivable			
Prior	10,692	3,017	4,295
Special assessments receivable			
Prior	-	-	-
Accounts receivable	22,027	51,712	20,794
Accrued interest receivable	25,499	14,894	-
Loans receivable - net	23,000	-	-
Due from other governments	25,439	1,962,972	173,245
Inventories	-	184,633	-
Prepaid items	14,373	-	570
Total Assets	<u>\$ 3,775,322</u>	<u>\$ 3,873,837</u>	<u>\$ 1,447,882</u>

EXHIBIT 3

<u>Land Management</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
\$ 963,418	\$ 9,865	\$ 137,541	\$ 10,167	\$ 4,762,279
448	-	2,601	-	79,790
-	-	-	-	1,350
8,000	-	-	-	2,848,500
104	-	491	-	18,599
7,267	-	-	-	7,267
95	-	-	-	94,628
264	-	-	-	40,657
-	-	-	-	23,000
-	-	-	-	2,161,656
-	-	-	-	184,633
-	-	-	-	14,943
<u>\$ 979,596</u>	<u>\$ 9,865</u>	<u>\$ 140,633</u>	<u>\$ 10,167</u>	<u>\$ 10,237,302</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	<u>General</u>	<u>Public Works</u>	<u>Family Services</u>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 41,444	\$ 41,209	\$ 116,504
Salaries payable	39,841	16,039	9,886
Contracts payable	-	44,576	-
Due to other governments	35,783	23,474	4,847
Deferred revenue - unavailable	35,132	1,793,140	4,295
Customer deposits	-	-	-
Total Liabilities	\$ 152,200	\$ 1,918,438	\$ 135,532
Fund Balances			
Reserved for			
Inventories	\$ -	\$ 184,633	\$ -
Encumbrances	-	24,300	-
Loans receivable	23,000	-	-
Prepaid items	14,373	-	-
Missing heirs	3,549	-	-
Law library	48	-	-
Recorder's technology fund	20,843	-	-
Recorder's compliance fund	28,450	-	-
Enhanced 911	24,785	-	-
Sheriff's contingency	9,671	-	-
Sheriff's forfeited property	17,285	-	-
Transportation	3,504	-	-
Highway allotments	-	37,427	-
Unreserved			
Designated for cash flows	1,696,246	824,595	1,096,573
Designated for compensated absences	244,428	157,642	123,205
Designated for capital equipment	-	500,000	-
Designated for Heritage Center	250,000	-	-
Designated for debt service	-	-	-
Undesignated	1,286,940	226,802	92,572
Total Fund Balances	\$ 3,623,122	\$ 1,955,399	\$ 1,312,350
Total Liabilities and Fund Balances	\$ 3,775,322	\$ 3,873,837	\$ 1,447,882

EXHIBIT 3
(Continued)

<u>Land Management</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
\$ 1,006	\$ 6,070	\$ -	\$ 4,217	\$ 210,450
2,418	-	-	-	68,184
-	-	-	-	44,576
2,081	-	-	-	66,185
7,635	-	491	-	1,840,693
8,000	25,074	-	-	33,074
\$ 21,140	\$ 31,144	\$ 491	\$ 4,217	\$ 2,263,162
\$ -	\$ -	\$ -	\$ -	\$ 184,633
-	-	-	-	24,300
-	-	-	-	23,000
-	-	-	-	14,373
-	-	-	-	3,549
-	-	-	-	48
-	-	-	-	20,843
-	-	-	-	28,450
-	-	-	-	24,785
-	-	-	-	9,671
-	-	-	-	17,285
-	-	-	-	3,504
-	-	-	-	37,427
187,479	-	-	-	3,804,893
14,744	-	-	-	540,019
-	-	-	-	500,000
-	-	-	-	250,000
-	-	140,142	-	140,142
756,233	(21,279)	-	5,950	2,347,218
\$ 958,456	\$ (21,279)	\$ 140,142	\$ 5,950	\$ 7,974,140
\$ 979,596	\$ 9,865	\$ 140,633	\$ 10,167	\$ 10,237,302

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**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

Fund balances - total governmental funds (Exhibit 3)	\$	7,974,140
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		38,065,246
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.</p>		1,840,693
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
<p>General obligation bonds</p>	\$ (1,765,000)	
Unamortized bond discount	27,308	
Deferred debt issuance costs	19,307	
Capital leases payable	(260,116)	
Compensated absences	(540,019)	
Accrued interest payable	(32,618)	
	(2,551,138)	(2,551,138)
Net Assets of Governmental Activities (Exhibit 1)		\$ 45,328,941

**ROCK COUNTY
LIVERNE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>General</u>	<u>Public Works</u>	<u>Family Services</u>
Revenues			
Taxes	\$ 1,858,069	\$ 518,707	\$ 711,358
Special assessments	-	-	-
Licenses and permits	1,045	-	-
Intergovernmental	1,307,641	2,438,888	1,703,359
Charges for services	1,071,367	267,917	53,197
Fines and forfeits	21,875	-	-
Gifts and contributions	152	-	-
Investment earnings	258,382	63,402	-
Miscellaneous	127,620	26,648	158,864
Total Revenues	\$ 4,646,151	\$ 3,315,562	\$ 2,626,778
Expenditures			
Current			
General government	\$ 1,945,645	\$ -	\$ -
Public safety	1,669,263	-	-
Highways and streets	-	2,214,055	-
Sanitation	-	239,858	-
Human services	-	-	2,622,123
Health	16,800	-	-
Culture and recreation	236,898	-	-
Conservation of natural resources	131,764	-	-
Economic development	1,900	-	-
Intergovernmental	167,903	193,072	-
Debt service			
Principal	33,570	23,875	-
Interest	11,962	2,194	-
Administrative (fiscal) charges	-	-	-
Total Expenditures	\$ 4,215,705	\$ 2,673,054	\$ 2,622,123
Excess of Revenues Over (Under) Expenditures	\$ 430,446	\$ 642,508	\$ 4,655
Other Financing Sources (Uses)			
Transfers in	\$ -	\$ 20,069	\$ -
Transfers out	(310,000)	-	-
Proceeds from sale of assets	8,740	8,877	1,330
Total Other Financing Sources (Uses)	\$ (301,260)	\$ 28,946	\$ 1,330
Net Change in Fund Balances	\$ 129,186	\$ 671,454	\$ 5,985
Fund Balances - January 1, as previously reported	\$ 3,493,936	\$ 1,265,986	\$ 1,306,365
Prior period adjustment (Note 1.E.)	-	-	-
Fund Balances - January 1, as restated	\$ 3,493,936	\$ 1,265,986	\$ 1,306,365
Increase (decrease) in reserved for inventories	\$ -	\$ 17,959	\$ -
Fund Balances - December 31	\$ 3,623,122	\$ 1,955,399	\$ 1,312,350

EXHIBIT 5

<u>Land Management</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
\$ 19,312	\$ -	\$ 98,092	\$ -	\$ 3,205,538
205,398	-	-	-	205,398
34,810	-	-	-	35,855
155,831	-	41,817	-	5,647,536
3,121	-	-	-	1,395,602
-	-	-	-	21,875
-	-	-	-	152
-	-	-	274	322,058
71,750	-	-	-	384,882
\$ 490,222	\$ -	\$ 139,909	\$ 274	\$ 11,218,896
\$ 45,842	\$ -	\$ -	\$ -	\$ 1,991,487
-	-	-	39,333	1,708,596
-	-	-	-	2,214,055
228,195	-	-	-	468,053
-	-	-	-	2,622,123
-	-	-	-	16,800
-	-	-	-	236,898
113,490	28,190	-	-	273,444
-	-	-	-	1,900
-	-	-	-	360,975
-	-	105,000	-	162,445
-	-	70,921	-	85,077
-	-	403	-	403
\$ 387,527	\$ 28,190	\$ 176,324	\$ 39,333	\$ 10,142,256
\$ 102,695	\$ (28,190)	\$ (36,415)	\$ (39,059)	\$ 1,076,640
\$ -	\$ -	\$ 160,000	\$ 150,000	\$ 330,069
(20,069)	-	-	-	(330,069)
-	-	-	-	18,947
\$ (20,069)	\$ -	\$ 160,000	\$ 150,000	\$ 18,947
\$ 82,626	\$ (28,190)	\$ 123,585	\$ 110,941	\$ 1,095,587
\$ 875,830	\$ 21,966	\$ 16,557	\$ (104,991)	\$ 6,875,649
-	(15,055)	-	-	(15,055)
\$ 875,830	\$ 6,911	\$ 16,557	\$ (104,991)	\$ 6,860,594
\$ -	\$ -	\$ -	\$ -	\$ 17,959
\$ 958,456	\$ (21,279)	\$ 140,142	\$ 5,950	\$ 7,974,140

**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 1,095,587

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 revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 1,840,693	
Deferred revenue - January 1	<u>(1,013,648)</u>	827,045

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.

Expenditures for general capital assets and infrastructure	\$ 624,150	
Capital contribution	600,000	
Current year depreciation	<u>(1,238,652)</u>	(14,502)

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

Principal repayments		
General obligation bonds	\$ 105,000	
Capital leases payable	<u>57,445</u>	162,445

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	\$ (26,001)	
Change in accrued interest payable	2,650	
Discount and bond issuance costs amortization	(2,614)	
Change in inventories	<u>17,959</u>	<u>(8,006)</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 2,062,569

FIDUCIARY FUNDS

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**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2007**

<u>Assets</u>	
Cash and pooled investments	<u>\$ 511,231</u>
 <u>Liabilities</u>	
Accounts payable	\$ 297,616
Due to other governments	<u>213,615</u>
Total Liabilities	<u>\$ 511,231</u>

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**ROCK COUNTY
LIVERNE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

Component Unit

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

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

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

The Capital Projects Fund is used to account for financial resources to be used for construction and remodeling of capital facilities.

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

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.

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

Primary Government

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, 2007, 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 2007 were \$158,365 for the County.

Rock County Rural Water District

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, 2007, based on market prices. Pooled investment earnings were \$39,625.

Rock County is holding a short-term investment 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 \$1,287,133 at December 31.

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

MAGIC Fund

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

3. Receivables and Payables

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

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

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

4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories in the Public Works Special Revenue Fund are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Inventories and Prepaid Items (Continued)

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

5. Restricted Assets

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the governmental activities column on the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	15 - 60
Improvements other than buildings	5 - 25
Public domain infrastructure	20 - 80
Machinery and equipment	3 - 50

7. Compensated Absences

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

8. Deferred Revenue

All County funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

**ROCK COUNTY
LUVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column on the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

10. Fund Equity

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

11. Use of Estimates

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Prior Period Adjustment

During 2007, the County determined that it had incorrectly recorded expenditures, including legal and engineering fees and other ditch repair costs, against the customer deposits asset balance, and total expenditures and assets were incorrect at December 31, 2006. The effect on beginning net assets for governmental activities and beginning fund balance for the Ditch Special Revenue Fund is:

	Governmental Activities	Ditch Fund
Beginning Net Assets/Fund Balance	\$ 43,281,427	\$ 21,966
Correction of an error - customer deposits	(15,055)	(15,055)
Net Assets/Fund Balance, Restated	\$ 43,266,372	\$ 6,911

2. Stewardship, Compliance, and Accountability

A. Deficit Net Assets

The Ditch Special Revenue Fund had a deficit fund balance at December 31, 2007, of \$21,279. The County anticipates levying special assessments in the future to eliminate the deficit.

B. Excess of Expenditures Over Budget

Expenditures exceeded budgets in the following funds:

Fund	Expenditures	Budget	Excess
General Fund	\$ 4,215,705	\$ 4,062,359	\$ 153,346
Special Revenue Funds			
Public Works	2,673,054	1,969,401	703,653
Family Services	2,622,123	2,436,246	185,877
Debt Service Fund	176,324	137,676	38,648

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

	Primary Government	Component Unit
Government-wide activities		
Cash and pooled investments	\$ 4,843,419	\$ 92,917
Investments	2,848,500	932,979
Investments - restricted	-	1,287,133
Fiduciary net assets		
Cash and pooled investments	511,231	-
Total Cash and Investments	\$ 8,203,150	\$ 2,313,029
Petty cash and change funds	\$ 1,350	\$ 50
Checking - County	5,212,852	162,133
Deposits - Rural Water District	-	92,867
Money market savings	114,399	-
Certificates of deposit	2,848,500	1,738,984
MAGIC Fund	-	318,995
Social Welfare Fund checking account	26,049	-
Total Deposits and Investments	\$ 8,203,150	\$ 2,313,029

a. Deposits

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, 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, 2007, the County's deposits in banks were entirely covered by federal depository insurance or by collateral in accordance with Minnesota statutes.

As of December 31, 2007, \$706,119 of the Rural Water District's bank balance was exposed to custodial credit risk as follows:

Uninsured and uncollateralized with securities held by the pledging financial institution's trust department not in the Rural Water District's name	<u>\$ 706,119</u>
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**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31, 2007, the County's investments were not exposed to custodial credit risk.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

The Rural Water District component unit does not have a custodial credit risk policy for investments as of December 31, 2007.

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. At December 31, 2007, 13.8 percent of the Rural Water District's cash and investments were held in the MAGIC Fund.

2. Receivables

Receivables as of December 31, 2007, for the County's governmental activities, net of the applicable allowances for uncollectible accounts, are as follows:

	Primary Government Receivables	Component Unit Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities			
Taxes	\$ 18,599	\$ 3,465	\$ -
Special assessments	7,267	-	-
Accounts	94,628	38	-
Loans receivable	23,000	-	2,000
Interest	40,657	24,061	-
Due from other governments	2,161,656	-	-
	<hr/>	<hr/>	<hr/>
Total Governmental Activities	\$ 2,345,807	\$ 27,564	\$ 2,000

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Loans Receivable

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

	Loans Receivable
Buffalo Ridge Rail Authority	\$ 236,070
Day Activity Center of Luverne	40,000
Luverne Optimist Hockey Club	4,000
Loans Receivable, January 1, 2007	\$ 280,070
Payments received during the year	(21,000)
Loans Receivable	\$ 259,070
Less: allowance for uncollectible accounts	(236,070)
Net Loans Receivable	\$ 23,000

The ending balance is made up of \$20,000 owed by the Day Activity Center of Luverne and \$3,000 from the Luverne Optimist Hockey Club.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 191,924	\$ 22,100	\$ -	\$ 214,024
Right-of-way	985,921	-	-	985,921
Construction in progress	1,886,095	262,777	1,886,095	262,777
Works of art and historical treasures	-	600,000	-	600,000
Total capital assets not depreciated	<u>\$ 3,063,940</u>	<u>\$ 884,877</u>	<u>\$ 1,886,095</u>	<u>\$ 2,062,722</u>
Capital assets depreciated				
Buildings	\$ 3,876,893	\$ 1,683,089	\$ -	\$ 5,559,982
Land improvements	-	209,511	-	209,511
Machinery, furniture, and equipment	5,418,092	183,519	211,644	5,389,967
Infrastructure	38,746,524	149,249	-	38,895,773
Total capital assets depreciated	<u>\$ 48,041,509</u>	<u>\$ 2,225,368</u>	<u>\$ 211,644</u>	<u>\$ 50,055,233</u>
Less: accumulated depreciation for				
Buildings	\$ 1,729,686	\$ 95,679	\$ -	\$ 1,825,365
Land improvements	-	5,587	-	5,587
Machinery, furniture, and equipment	2,429,920	312,150	211,644	2,530,426
Infrastructure	8,866,095	825,236	-	9,691,331
Total accumulated depreciation	<u>\$ 13,025,701</u>	<u>\$ 1,238,652</u>	<u>\$ 211,644</u>	<u>\$ 14,052,709</u>
Total capital assets depreciated, net	<u>\$ 35,015,808</u>	<u>\$ 986,716</u>	<u>\$ -</u>	<u>\$ 36,002,524</u>
Capital Assets, Net	<u>\$ 38,079,748</u>	<u>\$ 1,871,593</u>	<u>\$ 1,886,095</u>	<u>\$ 38,065,246</u>

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

Governmental Activities	
General government	\$ 142,085
Public safety	69,535
Sanitation	14,052
Highways and streets (including infrastructure)	990,196
Human services	2,608
Conservation of natural resources	20,176
Total Depreciation Expense - Governmental Activities	<u>\$ 1,238,652</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

4. Capital Assets (Continued)

Rock County Rural Water District

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land and right-of-way	\$ 106,587	\$ -	\$ -	\$ 106,587
Lewis and Clark project Expansion project	55,925 21,704	538,045 -	- -	593,970 21,704
Total capital assets not depreciated	<u>\$ 184,216</u>	<u>\$ 538,045</u>	<u>\$ -</u>	<u>\$ 722,261</u>
Capital assets depreciated				
Buildings and pumps	\$ 2,798,349	\$ 6,665	\$ 20,758	\$ 2,784,256
Machinery, furniture, and equipment	167,368	818	16,569	151,617
Infrastructure - distribution system	3,931,187	18,771	-	3,949,958
Total capital assets depreciated	<u>\$ 6,896,904</u>	<u>\$ 26,254</u>	<u>\$ 37,327</u>	<u>\$ 6,885,831</u>
Less: accumulated depreciation for				
Buildings and pumps	\$ 1,174,114	\$ 76,975	\$ 20,616	\$ 1,230,473
Machinery, furniture, and equipment	145,545	7,854	16,282	137,117
Infrastructure - distribution system	1,570,024	100,905	-	1,670,929
Total accumulated depreciation	<u>\$ 2,889,683</u>	<u>\$ 185,734</u>	<u>\$ 36,898</u>	<u>\$ 3,038,519</u>
Total capital assets depreciated, net	<u>\$ 4,007,221</u>	<u>\$ (159,480)</u>	<u>\$ 429</u>	<u>\$ 3,847,312</u>
Capital Assets, Net	<u>\$ 4,191,437</u>	<u>\$ 378,565</u>	<u>\$ 429</u>	<u>\$ 4,569,573</u>

Depreciation expense of \$185,734 was charged to the Rural Water District function on the statement of activities for the year ended December 31, 2007.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

Rock County did not have any interfund balances as of December 31, 2007.

Interfund Transfers

Interfund transfers for the year ended December 31, 2007, consisted of the following:

Transfers to Public Works Special Revenue Fund from Land Management Special Revenue Fund	\$ 20,069	Provide funding
Transfer to Debt Service Fund from General Fund	160,000	Provide funding
Transfer to Capital Projects Fund from General Fund	<u>150,000</u>	Provide funding
Total Interfund Transfers	<u>\$ 330,069</u>	

C. Liabilities

1. Payables

Payables at December 31, 2007, were as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Accounts	\$ 210,450	\$ 2,021
Salaries	68,184	73,660
Contracts	44,576	-
Due to other governments	66,185	-
Other	<u>-</u>	<u>3,465</u>
Total Payables	<u>\$ 389,395</u>	<u>\$ 79,146</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Leases

Capital Leases

Rock County has two lease agreements that 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. They consist of the following at December 31, 2007:

<u>Capital Lease</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2007</u>
HVAC system	2013	\$45,382	4.45	\$ 361,168	\$ 235,227
Caterpillar loader issued November 18, 2003	2008	\$26,069	4.50	<u>118,058</u>	<u>24,889</u>
Total				<u>\$ 479,226</u>	<u>\$ 260,116</u>

The gross amounts of assets included in the statement of net assets recorded under capital lease are \$887,113, and the related accumulated depreciation included in the general government and highways and streets accumulated depreciation is \$191,339.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Leases

Capital Leases (Continued)

Payments on the HVAC system capital lease are made from the General Fund. Payments for the Caterpillar capital lease are made from the Public Works Special Revenue Fund. The future lease obligations and the net present value of these minimum lease payments as of December 31, 2007, were as follows:

Year Ending December 31	Amount
2008	\$ 71,601
2009	45,532
2010	45,531
2011	45,532
2012	45,532
2013	45,532
Total minimum lease payments	\$ 299,260
Less: amount representing interest	(39,144)
Present Value of Future Minimum Lease Payments	\$ 260,116

3. Long-Term Debt

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2007
General obligation notes					
2003 G.O. Courthouse Bonds	2009	\$55,000 - \$60,000	1.80 - 3.05	\$ 295,000	\$ 60,000
2005 G.O. Capital Improvement Bonds	2026	\$45,000 - \$125,000	2.90 - 4.30	1,750,000	1,705,000
Subtotal				\$ 2,045,000	\$ 1,765,000
Less: discounts				(30,370)	(27,308)
Total General Obligation Bonds, Net				\$ 2,014,630	\$ 1,737,692

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Discrete Component Unit

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

Financing was obtained again during 2007 through Rock County with the Minnesota Public Facilities Authority in the form of a general obligation revenue note of \$533,000 at 1.02 percent interest.

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2007</u>
General obligation bonds					
2000 G.O. Revenue Bonds	2019	\$14,000 - \$89,000	1.79	\$ 1,460,000	\$ 968,000
2007 G.O. Revenue Note	2026	\$16,000 - \$31,000	1.02	<u>533,000</u>	<u>533,000</u>
Total				<u>\$ 1,993,000</u>	<u>\$ 1,501,000</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2007, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2008	\$ 65,000	\$ 65,112	\$ 59,953	\$ 11,648
2009	125,000	64,013	36,625	8,907
2010	70,000	60,917	38,254	7,277
2011	70,000	58,573	39,957	5,575
2012	75,000	56,087	41,735	3,797
2013 - 2017	405,000	237,348	43,592	1,940
2018 - 2022	485,000	150,171	-	-
2023 - 2026	470,000	41,154	-	-
Total	\$ 1,765,000	\$ 733,375	\$ 260,116	\$ 39,144

Discrete Component Unit

Year Ending December 31	General Obligation Revenue Bond		General Obligation Revenue Note	
	Principal	Interest	Principal	Interest
2008	\$ 73,000	\$ 17,326	\$ 16,000	\$ 5,437
2009	74,000	16,021	26,000	5,273
2010	76,000	14,696	27,000	5,008
2011	77,000	13,336	27,000	4,733
2012	78,000	11,957	27,000	4,457
2013 - 2017	414,000	38,252	140,000	18,095
2018 - 2022	176,000	4,743	147,000	10,802
2023 - 2026	-	-	123,000	3,152
Total	\$ 968,000	\$ 116,331	\$ 533,000	\$ 56,957

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds payable	\$ 1,870,000	\$ -	\$ 105,000	\$ 1,765,000	\$ 65,000
Less: deferred amounts for issuance discounts	(28,839)	-	(1,531)	(27,308)	-
Total bonds payable	\$ 1,841,161	\$ -	\$ 103,469	\$ 1,737,692	\$ 65,000
Capital leases	317,561	-	57,445	260,116	59,954
Compensated absences	514,018	26,001	-	540,019	49,142
Governmental Activities Long-Term Liabilities	<u>\$ 2,672,740</u>	<u>\$ 26,001</u>	<u>\$ 160,914</u>	<u>\$ 2,537,827</u>	<u>\$ 174,096</u>

Discrete Component Unit

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
G.O. revenue bond	\$ 1,040,000	\$ -	\$ 72,000	\$ 968,000	\$ 73,000
G.O. revenue note	-	533,000	-	533,000	16,000
Discretely Presented Component Unit Long-Term Liabilities	<u>\$ 1,040,000</u>	<u>\$ 533,000</u>	<u>\$ 72,000</u>	<u>\$ 1,501,000</u>	<u>\$ 89,000</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Rock County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public 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.

Public 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. All police officers, firefighters, and peace officers that qualify for membership by statute are covered by the Public Employees Police and Fire Fund.

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 and vest after three years of credited service. The 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 Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For the Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, and all Public Employees Police and Fire Fund members, a full annuity is available when age plus years of service equal 90. 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 Public Employees Retirement Fund and the Public Employees Police and Fire Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. 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. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered salary in 2007. That rate increased to 8.0 percent in 2008.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

	2007	2008
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50
Public Employees Police and Fire Fund	11.70	12.90

The County's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund
2007	\$ 203,272	\$ 75,856
2006	184,404	66,695
2005	158,023	56,272

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

The Rock County Rural Water District's contributions to the Public Employees Retirement Fund for the years ended December 31, 2007, 2006, and 2005, were \$10,686, \$9,863, and \$9,481, respectively. These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans (Continued)

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five 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 Rock County during the year ended December 31, 2007, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 1,893	\$ 1,893
Percentage of covered payroll	5.00%	5.00%

Required contribution rates were 5.00 percent.

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters, for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County purchases commercial insurance for employee health

**ROCK COUNTY
LIVERNE, MINNESOTA**

5. Risk Management (Continued)

and dental coverage as well as for other risks. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$400,000 per claim in 2007 and \$410,000 per claim in 2008. 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.

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

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

B. Joint Ventures

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

Lincoln-Pipestone Rural Water System

Pursuant to Minn. Stat. ch. 116A, Rock County entered into a joint powers agreement with Lincoln, Lyon, Murray, Nobles, Pipestone, and Yellow Medicine Counties to establish the Lincoln-Pipestone Rural Water System. The system is responsible for storing, treating, and distributing water for domestic, commercial, and industrial use within the area it services. The cost of providing these services is recovered through user charges.

Bonds were issued by Lincoln County 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, 2007, are \$19,496,142.

The Water System's 2007 financial report shows total net assets of \$38,079,073, including unrestricted net assets of \$19,414,884. The decrease in net assets for the year ended December 31, 2007, was \$68,041.

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

Nobles-Rock Community Health Services

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Nobles-Rock Community Health Services (Continued)

The Nobles-Rock Community Health Services is headquartered in Worthington, Minnesota, with offices at the county seats of the member counties. Financing is provided by state grants, appropriations from member counties, and charges for services. The County's contribution for December 31, 2007, was \$114,332.

Financial data of the Health Services for the year ended December 31, 2006 (the latest information available), are:

Total Assets	\$	580,289
Total Liabilities		217,953
Total Net Assets		362,336
Total Revenues		1,844,493
Total Expenditures/Expenses		1,795,513
Increase (Decrease) in Fund Equity		48,980

The Health Services' long-term debt consists of compensated absences of \$92,209.

Complete financial statements of the Nobles-Rock Community Health Services can be obtained at the Nobles County Courthouse, P. O. Box 757, Worthington, Minnesota 56187.

Rock-Nobles Community Corrections

Rock County participates with Nobles County in a joint venture to provide community corrections services. Rock-Nobles Community Corrections develops and implements humane and effective methods of prevention, control, and rehabilitation of offenders. The governing board is composed of two County Commissioners from the participating counties and three lay members.

Rock-Nobles Community Corrections is headquartered in Worthington, Minnesota, with offices at the county seats of the member counties. Financing is provided by state grants and appropriations from member counties. Rock County's contributions to Rock-Nobles Community Corrections for the year ended December 31, 2007, were \$53,571.

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Rock-Nobles Community Corrections (Continued)

The following is a summary of Rock-Nobles Community Corrections' annual financial report for the year ended December 31, 2006 (the latest information available):

Total Assets	\$	178,203
Total Liabilities		95,105
Total Fund Equity		83,098
Total Revenues		624,992
Total Expenditures/Expenses		645,950
Increase (Decrease) in Fund Equity		(20,958)

Rock-Nobles Community Corrections' long-term debt consists of employees' compensated absences payable of \$52,304 as of December 31, 2006.

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

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the County entered into a joint powers agreement with a number of other counties creating and operating the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host.

The Board shall take actions and enter into such agreements as may be necessary to plan and develop within the Board's geographic jurisdiction a system of care that will serve the needs of adults with serious and persistent mental illness. The governing board is composed of one Board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

**ROCK COUNTY
LUVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The following is a summary of the Board's annual financial report for the year ended December 31, 2005 (the latest information available):

Total Assets	\$ 1,148,132
Total Liabilities	497,546
Total Fund Equity	650,586
Total Revenues	1,960,287
Total Expenditures	1,671,076
Net Change in Net Assets	289,211

The Board reported no long-term obligations at December 31, 2005.

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.

C. Jointly-Governed Organizations

Kanaranzi-Little Rock Watershed District

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

Rock-Pipestone Family Service Collaborative

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

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REQUIRED SUPPLEMENTARY INFORMATION

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**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 31,000	\$ 2,048,168	\$ 1,858,069	\$ (190,099)
Licenses and permits	615	615	1,045	430
Intergovernmental	266,554	784,940	1,307,641	522,701
Charges for services	1,014,631	1,014,631	1,071,367	56,736
Fines and forfeits	20,000	20,000	21,875	1,875
Gifts and contributions	-	-	152	152
Investment earnings	60,000	60,000	258,382	198,382
Miscellaneous	115,005	115,005	127,620	12,615
Total Revenues	\$ 1,507,805	\$ 4,043,359	\$ 4,646,151	\$ 602,792
Expenditures				
Current				
General government				
Commissioners	\$ 194,794	\$ 194,794	\$ 262,841	\$ (68,047)
Courts	6,500	6,500	13,365	(6,865)
Law library	-	-	10,026	(10,026)
Administrator	154,250	154,250	157,879	(3,629)
Auditor/Treasurer	220,310	220,310	202,151	18,159
License center	90,809	90,809	90,506	303
Elections	17,184	17,184	947	16,237
Accounting and auditing	30,000	30,000	55,397	(25,397)
Data processing	137,902	137,902	119,519	18,383
Attorney	141,031	141,031	141,648	(617)
Land records	325,803	325,803	312,005	13,798
Buildings and plant	222,272	222,272	217,765	4,507
Veterans service officer	55,905	55,905	53,140	2,765
Transportation	280,945	280,945	308,456	(27,511)
Total general government	\$ 1,877,705	\$ 1,877,705	\$ 1,945,645	\$ (67,940)
Public safety				
Sheriff	\$ 1,490,405	\$ 1,490,405	\$ 1,505,686	\$ (15,281)
Coroner	10,000	10,000	5,522	4,478
E-911 system	-	-	80,107	(80,107)
Prisoner care	137,500	137,500	72,858	64,642
Community corrections	-	-	4,551	(4,551)
Emergency services	1,443	1,443	539	904
Total public safety	\$ 1,639,348	\$ 1,639,348	\$ 1,669,263	\$ (29,915)
Health				
Community health	\$ 16,800	\$ 16,800	\$ 16,800	\$ -

**ROCK COUNTY
LIVERNE, MINNESOTA**

*Schedule 1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Culture and recreation				
Historical society	\$ -	\$ -	\$ 6,250	\$ (6,250)
Minnesota trails	-	-	13,668	(13,668)
Community pool and fitness center	82,501	82,501	83,628	(1,127)
Senior citizens	5,604	5,604	4,053	1,551
Regional library	125,108	125,108	126,299	(1,191)
Other	25,250	25,250	3,000	22,250
Total culture and recreation	\$ 238,463	\$ 238,463	\$ 236,898	\$ 1,565
Conservation of natural resources				
Extension	\$ 120,240	\$ 120,240	\$ 115,764	\$ 4,476
Agricultural society	-	-	16,000	(16,000)
Total conservation of natural resources	\$ 120,240	\$ 120,240	\$ 131,764	\$ (11,524)
Economic development				
Tourism promotion	\$ 1,900	\$ 1,900	\$ 1,900	\$ -
Intergovernmental				
Public safety	\$ 53,571	\$ 53,571	\$ 53,571	\$ -
Health	\$ 114,332	\$ 114,332	\$ 114,332	\$ -
Debt service				
Principal	\$ -	\$ -	\$ 33,570	\$ (33,570)
Interest	\$ -	\$ -	\$ 11,962	\$ (11,962)
Total Expenditures	\$ 4,062,359	\$ 4,062,359	\$ 4,215,705	\$ (153,346)
Excess of Revenues Over (Under) Expenditures	\$ (2,554,554)	\$ (19,000)	\$ 430,446	\$ 449,446
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (310,000)	\$ (310,000)
Proceeds from sale of assets	-	-	8,740	8,740
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (301,260)	\$ (301,260)
Net Change in Fund Balance	\$ (2,554,554)	\$ (19,000)	\$ 129,186	\$ 148,186
Fund Balance - January 1	3,493,936	3,493,936	3,493,936	-
Fund Balance - December 31	\$ 939,382	\$ 3,474,936	\$ 3,623,122	\$ 148,186

**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
PUBLIC WORKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 26,820	\$ 572,390	\$ 518,707	\$ (53,683)
Intergovernmental	966,342	1,106,547	2,438,888	1,332,341
Charges for services	235,634	235,634	267,917	32,283
Investment earnings	52,030	52,030	63,402	11,372
Miscellaneous	2,800	2,800	26,648	23,848
Total Revenues	\$ 1,283,626	\$ 1,969,401	\$ 3,315,562	\$ 1,346,161
Expenditures				
Current				
Highways and streets				
Administration	\$ 202,904	\$ 202,904	\$ 199,219	\$ 3,685
Maintenance	861,500	861,500	874,004	(12,504)
Construction	185,904	185,904	455,748	(269,844)
Equipment and maintenance shops	418,751	418,751	518,441	(99,690)
Material and services for resale	14,000	14,000	78,043	(64,043)
Other	88,600	88,600	88,600	-
Total highways and streets	\$ 1,771,659	\$ 1,771,659	\$ 2,214,055	\$ (442,396)
Sanitation				
Solid waste	197,742	197,742	239,858	(42,116)
Intergovernmental				
Highways and streets	-	-	193,072	(193,072)
Debt service				
Principal	-	-	23,875	(23,875)
Interest	-	-	2,194	(2,194)
Total Expenditures	\$ 1,969,401	\$ 1,969,401	\$ 2,673,054	\$ (703,653)
Excess of Revenues Over (Under) Expenditures	\$ (685,775)	\$ -	\$ 642,508	\$ 642,508
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 20,069	\$ 20,069
Proceeds from sale of assets	-	-	8,877	8,877
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 28,946	\$ 28,946
Net Change in Fund Balance	\$ (685,775)	\$ -	\$ 671,454	\$ 671,454
Fund Balance - January 1	1,265,986	1,265,986	1,265,986	-
Increase (decrease) in reserved for inventories	-	-	17,959	17,959
Fund Balance - December 31	\$ 580,211	\$ 1,265,986	\$ 1,955,399	\$ 689,413

**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ -	\$ 789,858	\$ 711,358	\$ (78,500)
Intergovernmental	1,212,034	1,415,018	1,703,359	288,341
Charges for services	53,510	53,510	53,197	(313)
Miscellaneous	177,860	177,860	158,864	(18,996)
Total Revenues	\$ 1,443,404	\$ 2,436,246	\$ 2,626,778	\$ 190,532
Expenditures				
Current				
Human services				
Income maintenance	\$ 903,328	\$ 903,328	\$ 914,746	\$ (11,418)
Social services	1,532,918	1,532,918	1,707,377	(174,459)
Total Expenditures	\$ 2,436,246	\$ 2,436,246	\$ 2,622,123	\$ (185,877)
Excess of Revenues Over (Under) Expenditures	\$ (992,842)	\$ -	\$ 4,655	\$ 4,655
Other Financing Sources (Uses)				
Proceeds from sale of assets	-	-	1,330	1,330
Net Change in Fund Balance	\$ (992,842)	\$ -	\$ 5,985	\$ 5,985
Fund Balance - January 1	1,306,365	1,306,365	1,306,365	-
Fund Balance - December 31	\$ 313,523	\$ 1,306,365	\$ 1,312,350	\$ 5,985

**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
LAND MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ -	\$ 19,013	\$ 19,312	\$ 299
Special assessments	184,484	184,484	205,398	20,914
Licenses and permits	32,828	32,828	34,810	1,982
Intergovernmental	132,500	137,386	155,831	18,445
Charges for services	2,000	2,000	3,121	1,121
Miscellaneous	60,500	60,500	71,750	11,250
Total Revenues	\$ 412,312	\$ 436,211	\$ 490,222	\$ 54,011
Expenditures				
Current				
General government				
Planning and zoning	\$ 35,206	\$ 35,206	\$ 45,842	\$ (10,636)
Sanitation				
Solid waste	\$ 181,259	\$ 181,259	\$ 136,738	\$ 44,521
Recycling	69,945	69,945	67,365	2,580
Hazardous waste	22,980	22,980	24,092	(1,112)
Total sanitation	\$ 274,184	\$ 274,184	\$ 228,195	\$ 45,989
Conservation of natural resources				
Agricultural inspection	\$ 11,307	\$ 11,307	\$ 10,171	\$ 1,136
Water planning	115,514	115,514	103,319	12,195
Total conservation of natural resources	\$ 126,821	\$ 126,821	\$ 113,490	\$ 13,331
Total Expenditures	\$ 436,211	\$ 436,211	\$ 387,527	\$ 48,684
Excess of Revenues Over (Under) Expenditures	\$ (23,899)	\$ -	\$ 102,695	\$ 102,695
Other Financing Sources (Uses)				
Transfers out	-	-	(20,069)	(20,069)
Net Change in Fund Balance	\$ (23,899)	\$ -	\$ 82,626	\$ 82,626
Fund Balance - January 1	875,830	875,830	875,830	-
Fund Balance - December 31	\$ 851,931	\$ 875,830	\$ 958,456	\$ 82,626

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**ROCK COUNTY
LIVERNE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2007

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund, Public Works Special Revenue Fund, Family Services Special Revenue Fund, Land Management Special Revenue Fund, and the Debt Service Fund. The expenditure budget is approved at the fund level. The Ditch Special Revenue Fund is not budgeted for.

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

2. Budget Basis of Accounting

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

3. Budget Amendments

The County did not amend any of their expenditure budgets during the year.

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Budget	Excess
General Fund	\$ 4,215,705	\$ 4,062,359	\$ 153,346
Special Revenue Funds			
Public Works	2,673,054	1,969,401	703,653
Family Services	2,622,123	2,436,246	185,877

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SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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**ROCK COUNTY
LUVERNE, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ -	\$ 109,529	\$ 98,092	\$ (11,437)
Intergovernmental	-	28,147	41,817	13,670
Total Revenues	\$ -	\$ 137,676	\$ 139,909	\$ 2,233
Expenditures				
Debt service				
Principal	\$ 137,676	\$ 137,676	\$ 105,000	\$ 32,676
Interest	-	-	70,921	(70,921)
Administrative (fiscal) fees	-	-	403	(403)
Total Expenditures	\$ 137,676	\$ 137,676	\$ 176,324	\$ (38,648)
Excess of Revenues Over (Under) Expenditures	\$ (137,676)	\$ -	\$ (36,415)	\$ (36,415)
Other Financing Sources (Uses)				
Transfers in	-	-	160,000	160,000
Net Change in Fund Balance	\$ (137,676)	\$ -	\$ 123,585	\$ 123,585
Fund Balance - January 1	16,557	16,557	16,557	-
Fund Balance - December 31	\$ (121,119)	\$ 16,557	\$ 140,142	\$ 123,585

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**ROCK COUNTY
LUVERNE, MINNESOTA**

AGENCY FUNDS

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

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

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

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**ROCK COUNTY
LIVERNE, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 313,859	\$ 70,992	\$ 113,284	\$ 271,567
<u>Liabilities</u>				
Accounts payable	\$ 313,859	\$ 70,992	\$ 113,284	\$ 271,567
 <u>SOCIAL WELFARE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 33,467	\$ 276,437	\$ 283,855	\$ 26,049
<u>Liabilities</u>				
Accounts payable	\$ 33,467	\$ 276,437	\$ 283,855	\$ 26,049
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 73,471	\$ 9,948,620	\$ 9,808,476	\$ 213,615
<u>Liabilities</u>				
Due to other governments	\$ 73,471	\$ 9,948,620	\$ 9,808,476	\$ 213,615

**ROCK COUNTY
LIVERNE, MINNESOTA**

*Statement 1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 420,797	\$ 10,296,049	\$ 10,205,615	\$ 511,231
<u>Liabilities</u>				
Accounts payable	\$ 347,326	\$ 347,429	\$ 397,139	\$ 297,616
Due to other governments	73,471	9,948,620	9,808,476	213,615
Total Liabilities	\$ 420,797	\$ 10,296,049	\$ 10,205,615	\$ 511,231

OTHER SCHEDULE

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**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 6

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Shared Revenue

State

Highway users tax	\$	1,994,107
County program aid		894,608
PERA rate reimbursement		15,088
Disparity reduction aid		6,961
Police aid		66,695
Enhanced 911		81,820
Market value credit		427,521
		427,521

Total Shared Revenue **\$ 3,486,800**

Reimbursement for Services

Minnesota Department of Human Services	\$	735,654
		735,654

Payments

Local

Payments in lieu of taxes	\$	47,239
Local		1,213
		1,213

Total Payments **\$ 48,452**

Grants

State

Minnesota Department of Corrections	\$	166
Human Services		532,117
Natural Resources		13,668
Public Safety		6,822
Transportation		137,949
Veterans Affairs		1,400
Peace Officer Standards and Training Board		4,020
Water and Soil Resources Board		95,238
Pollution Control Agency		52,039
		52,039

Total State **\$ 843,419**

Federal

Department of Agriculture	\$	837
Transportation		370,301
Health and Human Services		152,649
Homeland Security		9,424
		9,424

Total Federal **\$ 533,211**

Total State and Federal Grants **\$ 1,376,630**

Total Intergovernmental Revenue **\$ 5,647,536**

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**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 7

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Rock County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Rock County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Rock County were disclosed during the audit.
- D. A significant deficiency relating to the audit of the major federal award programs is reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133." The significant deficiency is not a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for Rock County expresses an unqualified opinion.
- F. A finding relative to a major federal award program for Rock County was reported as required by Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- | | |
|---|--------------|
| Highway Planning and Construction | CFDA #20.205 |
| Formula Grants for Other Than Urbanized Areas | CFDA #20.509 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Rock County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

05-1 Segregation of Duties

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

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

We recommend that Rock County's management be aware of the lack of segregation of duties within the accounting functions and, if possible, implement and monitor oversight procedures to ensure that internal control policies and procedures are being followed by staff.

Client's Response:

Rock County management is aware of segregation of accounting duties and will continue to work on oversight procedures within limited staffing constraints.

05-8 Computer System Controls

Risk management begins with a risk assessment of the County's computer system to identify those risks that could negatively influence computer operations. Internal controls should be implemented to reduce the identified risks. Internal controls implemented should be documented in a well-maintained policies and procedures manual, which should be communicated to the County's staff. Staff adherence to these policies and procedures should be monitored.

Proper controls should be maintained over the computer system to allow for proper financial reporting. The County does not require strong passwords or periodically test its disaster recovery plan.

We recommend the County take steps to improve the control over its computer systems by requiring passwords that are longer and include more randomized characters and periodically testing its disaster recovery plan.

We recommend the County Board develop a plan to ensure that internal controls are in place to reduce the risk associated with the County's computer systems. Because computer systems are ever changing, the County should include in its plan periodic reassessment of risk to ensure existing internal controls are still effective.

Client's Response:

Rock County will adopt an Information Technology Disaster Recovery Plan addressing disaster recovery for all mission critical servers and will implement improved control measures by requiring increased password complexity and enforced periodic password changes.

05-9 Charge Accounts at Local Businesses

The County has open charge accounts at various local businesses. The County did not provide documentation to show a formal policy had been approved regarding the use of these accounts. County departments have set up charge accounts at various businesses without formal guidance from the County Board. This decentralized charge account process may expose the County to risk of inappropriate or unbudgeted purchases.

We recommend the County develop a formal policy indicating where charge accounts may be opened, limits to these charge accounts, and who is authorized to use them. The policy should also include procedures indicating how the accounts are to be reconciled, and responsibility should be assigned for monitoring adherence to the policy.

Client's Response:

County is currently developing policy and procedures for charge accounts with local businesses.

05-10 Accounting System Journal Entry Function

The County does not limit access to the accounting system journal entry function to select County employees. Several employees in the Auditor/Treasurer's Office and at Family Services have access to this function. Many journal entries made by personnel from the Auditor/Treasurer's Office are approved by the Auditor/Treasurer, but other journal entries made to the accounting system are not reviewed or approved by anyone.

The ability to make journal entries on the accounting system is a powerful function because it allows those employees to make changes to the system. To prevent abuse of this function, access should be limited to those employees whose job duties require them to have this access.

We recommend the County Auditor/Treasurer strengthen the control over journal entries by determining who has access to the journal entry function and whether there is a logical need for those employees to have access to this function. We also recommend a procedure be established to require review and approval of journal entries by someone other than the person making the journal entries. This person should obtain an understanding of the journal entry and its purpose before approval. The approval could be documented by signature on a journal entry form or a printed copy of the journal entry made. Supporting documentation or sufficient explanation should be attached to or included on the journal entry form to explain why the journal entry is being made and who is making the journal entry. Journal entries should be filed in a manner that allows for their review should questions arise. A report should be generated from the accounting system that lists all journal entries made. The person charged with review and approval of journal entries should periodically review this report to ensure that no journal entries have been made which have not been submitted for review and approval.

Client's Response:

Procedures are in place to require multiple signatures and reviews for journal entry.

06-2 Preparation of Financial Statements

The County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal control over both recording and processing and

summarizing accounting data (maintaining internal books and records) and preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the County's internal control. This condition was caused by the County's decision that it is more cost effective to have its auditors prepare its basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the County lacks internal control over the preparation of financial statements in accordance with GAAP.

The County's accounting system has been upgraded to accommodate the modified accrual and full accrual bases of accounting in separate general ledger systems to allow for the preparation of the annual financial statements in accordance with generally accepted accounting principles for governments. During our audit, we noted several deficiencies that prevented the accounting system from providing accurate modified and full accrual financial statements. These deficiencies resulted in additional audit time because significant audit adjustments were required to correct the financial statements prepared by the County.

Rock County has identified and is training individuals to obtain the expertise to improve its preparation of financial statements. We recommend the County continue training in preparation of annual financial statements in accordance with GAAP, including appropriate government-wide and fund financial statements and the related notes to the financial statements. Also, this process should be monitored by a knowledgeable person to ensure that the accounts are correctly summarized for financial statement purposes. As part of the financial statement preparation, summary schedules and worksheets should be prepared by County staff to document the various accrual adjusting journal entries and to demonstrate how the accounts in the financial records are classified or summarized for the annual financial statements. When the financial statements are completed by the accounting system, County staff should review the statements to ensure that reported amounts can be traced back to the prepared supporting schedules and worksheets.

Client's Response:

Rock County through training will be prepared to develop its own financial statements for year-end 2008.

06-3 Audit Adjustments and Restatements

A control deficiency 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 misstatements of the financial statements on a timely basis. Two control deficiencies that typically are considered significant are identification by the auditor of a material misstatement in the financial statements not initially identified by the entity's internal controls and restatement of previously issued financial statements to reflect the correction of a material misstatement.

During our audit, we proposed numerous adjustments that resulted in significant changes to the County's financial statements. The adjustments resulted from: County staff needing guidance on accounting principles and oversight to provide accurate and reliable information; errors were made in recording transactions and with mapping of various account codes; controls over calculating the proper amounts of assets and liabilities did not detect a number of errors, which resulted in the County's records overstating assets, liabilities, revenues, and expenditures; and the County did not consider the need for controls over the recording of certain accounting transactions. The inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements could be not fairly presented.

We recommend that the County review internal controls currently in place, then design and implement procedures to improve internal controls over financial reporting to detect misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

Client's Response:

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

06-4 Accounting Policies and Procedures Manual

The County does not have a current and comprehensive accounting policies and procedures manual. All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures that make up the County's internal control system.

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the County's internal control system and to avoid circumvention of County policies.

We recommend the County establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

Client's Response:

Accounting Policies and Procedures manual will be adopted for calendar year 2008.

06-5 New Vendors

The County does not have any procedures for determining if new vendors have been added to the accounts payable system or if the new vendors added are legitimate vendors.

The ability to set up new vendors on the accounts payable system should be limited to those individuals with a logical need for this function. In addition, a report called "Vendors Added List by Number" should be printed periodically and reviewed by someone independent of the accounts payable system. That person should document the review by signing off on the report.

Also, when invoices are submitted for vendors that have not previously done business with the County, some procedures should be required to verify whether the vendor is legitimate. Procedures could include looking up the vendor in the phone book or on the internet or requiring the company to send information about its business. Periodically, the vendor listing should be reviewed for old, unused vendors, and those vendors should be removed from the system.

Client's Response:

New vendors will only be added when verified by department head and both Auditor/Treasurer or Administrator.

06-11 Capital Assets Policies and Procedures

For financial reporting and asset management purposes, the County is required to keep records of its capital assets, including infrastructure. The County maintains its capital asset records on a separate software system from Computer Professionals Unlimited, Inc. Capital asset additions and deletions are entered to this system, and depreciation is calculated by the system. Capital asset procedures utilized by the County in maintaining the capital asset system differ from the policy formally approved by the County Board. Procedures documented in a capital assets policy that defines the County's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods, should either be followed or the policy should be updated and rewritten.

It is not clear how the costs of replaced infrastructure assets are being deleted, if at all. The County is carrying a significant amount of fully depreciated assets. Typically, a capital asset still in use should not be considered fully depreciated. For significant assets, the estimated useful lives assigned to capital assets should be reconsidered. At the time of redetermination, the estimated useful life of an asset includes both the years the asset has been in service and the estimated number of years of service remaining.

We recommend the County follow an approved capital assets policy that defines the County's accounting policies over capital assets. The policy should establish procedures to identify capital asset additions and deletions, to accurately estimate useful lives, and to address the point when useful lives of current capital assets should be reconsidered.

Department heads should report capital asset additions and deletions to the person maintaining the capital asset records at least annually. Also, we recommend a physical inventory of capital assets be performed periodically. This physical inventory can be rotated so that a portion of the capital assets is inventoried each year. Each asset should be counted at least once every four years. Some critical capital assets may need more frequent accounting.

Client's Response:

County will review capital assets policy and update.

ITEMS ARISING THIS YEAR

07-1 Documenting and Monitoring Internal Controls

County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

At a minimum, the following significant internal control areas should be documented:

- cash and investment activities;
- capital assets (capitalization process and related depreciation);
- major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items);
- expenditure/expense processing; and
- payroll.

We recommend that County management document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

County will work with limited staff constraints to provide multiple reviews resulting in more significant internal controls.

07-2 Payroll

No controls exist to verify the correct pay rates were in the payroll system for all employees, that pay rates were updated for authorized reasons, or that any payroll information changes were reviewed by other County personnel. These conditions represent a serious weakness to the County's internal controls. Without improved controls, employees could be receiving incorrect pay or employees could be added or deleted from the system without being noticed.

We recommend that County management implement oversight procedures to ensure any changes made to an employee's payroll information are correct, are made for authorized purposes, and are reviewed by someone other than the person making the change.

Client's Response:

County Administrator will review and sign payroll journal bi-weekly to verify rates of pay for all County staff.

PREVIOUSLY REPORTED ITEMS RESOLVED

Sheriff's Department Cash Handling Procedures (05-2)

The Sheriff's Department did not receipt all funds, did not restrictively endorse checks in a timely manner, and did not promptly remit monies to the Auditor/Treasurer's Office.

Resolution

The Sheriff's Department strengthened controls by receipting all monies on prenumbered receipts, endorsing checks upon receipt, and remitting funds in a timely manner.

Annual Adopted Budget and Budget Policy (06-1)

Board-approved budgets did not agree with the recorded budget in the County's general ledger. The County did not enter budgeted amounts for taxes or the corresponding state-paid credits in its accounting system, thereby understating budgeted revenues. The County could not provide a developed and adopted budget policy for management's administration of the County budget.

Resolution

Board-approved budgets equaled amounts recorded in the general ledger. Budgeted amounts for taxes and corresponding state-paid credits were recorded in the final budget. The County provided an approved budget policy.

Physical Count of Inventory (06-6)

The County's inventory count did not match the test count performed by the Office of the State Auditor, and County personnel were unable to explain the differences between the counts.

Resolution

County personnel performed an inventory count at the beginning of January 2008 for year-end 2007 and were able to explain the differences between counts.

Inaccurate Documentation in Personnel File (06-7)

Information in the personnel file for one employee stated the employee would be paid the same rate of pay for work with Public Works and Transportation, while the employee was actually paid different rates in order for his pay to be comparable to other drivers.

Resolution

Complete and accurate documentation was kept for personnel files viewed during the current audit.

Claim Documentation - Public Purpose (06-8)

Two travel claims did not document the public purpose of the expenditure.

Resolution

Public purpose was stated for all expenditures after the date the County was notified of the deficiency in the prior year.

Cash Basis General Ledger (06-9)

The cash basis general ledger overstated the cash and pooled investments balance by \$770,350.

Resolution

The County processed all cash transactions through the cash basis general ledger and reviewed the general ledger monthly to verify that cash and investments agreed with the total amount owned by the County.

Capital Assets and Accumulated Depreciation (06-10)

Beginning capital assets and accumulated depreciation in the County's capital assets system did not match the amounts on the County's audited financial statements for infrastructure.

Resolution

The County adjusted the capital assets system's totals to match the audited figures by category for capital assets and accumulated depreciation.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

06-12 Reimbursement Request Deficiencies (CFDA # 20.205)

We noted that several reimbursement requests made by the County were not timely. We noted the following:

- Reimbursement requests for three projects were not made for a long period of time after the project work had been paid to the applicable contractor. On Project SP 67-599-66, work paid to the contractor on November 9, 2004, was not submitted for reimbursement until November 30, 2007. Project SP 67-604-16 had work paid on September 8, 2003, that was not submitted for reimbursement until January 29, 2007. On Project SP 67-599-62, work paid to the contractor on November 9, 2004, was not requested until February 2, 2007.

- Two other projects were submitted for reimbursement 4 to 13 months prior to the contractor being paid for the project. Federal funds were requested on Project SP 67-597-04 on February 5, 2007, and on Project SP 67-599-134 on August 13, 2007, while the contractors were not paid until March 28, 2008, and December 28, 2007, respectively, for those contracts.

According to the Minnesota Department of Transportation's DCP Checklist, a County "may submit Request for Payment after the expense has been incurred but prior to paying the contractor, provided they have an approved payment process assuring the contractor is paid promptly upon receiving reimbursement of the Federal share."

We recommend that reimbursement requests be completed in a timely manner and any monies received prior to paying the contractor be paid promptly.

Corrective Action Plan:

Contact Person Responsible for Corrective Action:

Ed Kraayenhof

Action Planned:

Regarding reimbursements and payments, we will attempt to comply with all applicable regulations.

Completion Date:

Have been working on this since the audit and soon should be current.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

06-13 Depository Pledge Agreements

The County could not provide depository pledge agreements between the County and some of its authorized banks. A depository pledge agreement is typically used to document the procedures for the County to follow in order to receive the collateral pledged to protect the County's deposits and investments if a financial institution defaults on its obligations.

Minn. Stat. § 118A.03, subd. 4, states, "The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged."

We recommend that the County obtain a security agreement with all institutions providing collateral. It is the position of the State Auditor that the assignment must recite or state that upon default and on demand, the collateral must be released to the government entity. Any contractual impediment to this process is in conflict with the statute.

If an assignment defines "default," it must, at a minimum, include: failure to make interest payments when due, failure to promptly deliver upon demand all money on deposit (less any early withdrawal penalty that may be required in connection with the withdrawal of a time deposit), and closure of the depository. Any definition that does not include these three situations or attempts to exclude one or more of these situations from the definitions of "default" is not in compliance with Minnesota statutes.

Client's Response:

County is in receipt of all but one. The remaining agreement should be received in 2008.

ITEM ARISING THIS YEAR

07-3

Settlement of In Lieu of Tax Monies

Rock County received payment in lieu of tax monies from the State of Minnesota in July 2006 and 2007. The monies were receipted into the County's General Fund. The County did not allocate the receipts to any other taxing districts during 2006 or 2007.

Minn. Stat. § 97A.061, subd. 2 (a), directs the payment in lieu of tax monies be allocated "among the county, towns, and school districts on the same basis as if the payments were taxes on the land received in the year." The statute further requires the allocation to other taxing districts be made "within 30 days of receipt of the payment to the county."

We recommend the County comply with Minn. Stat. § 97A.061, subd. 2 (a), by settling the collection of payment in lieu of tax monies to other applicable taxing districts within 30 days of receiving the monies from the State of Minnesota.

Client's Response:

County will comply with Minn. Stat. § 97A.061, subd. 2, and these monies have now been disbursed.

PREVIOUSLY REPORTED ITEMS RESOLVED

Prompt Payment Language in Contracts (06-14)

A contract for a road construction project and the contracts for the new law enforcement center building did not require subcontractors to be paid within ten days of the prime contractor's receipt of payment from the County as required by Minn. Stat. § 471.425, subd. 4a.

Resolution

The County complied with Minn. Stat. § 471.425, subd. 4a, by including needed statutory language in contracts.

Final Contract Payment (06-15)

Final payment was made on a contract for seal coating before a certified Form IC-134, or an electronic equivalent, was received from a subcontractor.

Resolution

The County complied with Minn. Stat. § 270C.66 by obtaining the proper documentation regarding contractors and subcontractors withholding income taxes before making final settlement on contracts.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

06-16 Tax Identification Number

One organization, the Buffalo Ridge Rail Authority, uses the County's tax identification number on its bank account even though the organization is not part of the County. The December 31, 2007, bank balance of the account was \$41,557.

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

We recommend that the County inform the unauthorized organization currently using the County's tax identification number that it can no longer use the number.

Client's Response:

Buffalo Ridge Rail Authority has been informed and will resolve in 2008.

ITEM ARISING THIS YEAR

07-4

Meeting Minutes

We noted the following deficiencies with the County's Board minutes while we were on site to perform audit procedures in May 2008:

- the minutes for June 26, 2007, were not included with the official minutes;
- a joint meeting with Nobles County on October 16, 2007, was mentioned in the minutes, but no minutes were available for that meeting; and
- the minutes were signed only through the December 18, 2007, meeting.

During our review of the Board minutes for the first part of 2008, we noted the County Board conducted business without a quorum of members on April 22, 2008. After three of the five Commissioners excused themselves from the meeting, the remaining two Commissioners conducted business "pending ratification of the minutes at the May 6th County Board meeting."

Minn. Stat. § 375.07 states, "A majority shall constitute a quorum, and no business shall be done unless voted for by a majority of the whole board, but less than a majority may adjourn." Three members are a quorum, and three "yes" votes are needed to pass a resolution, other than a resolution to adjourn. It is unclear how a member could (1) agree that the minutes are accurate, but (2) vote against a resolution conditionally passed by the two members. In addition, unless Board members are very diligent, they might easily vote in favor of a resolution to ratify minutes without realizing the vote would also serve as a vote in favor of another substantive resolution that is not part of the motion before the Board, by reason of references in the minutes.

We recommend the County implement procedures to ensure the minutes are all part of the official record, are complete, and that the minutes are signed and dated by the designated member of the County once approved by the Board to indicate they are the official meeting minutes. We also recommend that the County comply with Minn. Stat. § 375.07 by adjourning meetings when a quorum is not present.

Client's Response:

County will comply with all statutory rules governing the official record of Rock County.

PREVIOUSLY REPORTED ITEM RESOLVED

Town Road Monies (06-17)

The County accounted for the receipt and disbursement of town road monies in an agency fund. Pass-through grants such as town road monies should be recognized in the County's financial statements as revenues and expenditures unless the County is strictly acting as a cash conduit without any administrative or direct financial involvement.

Resolution

The County discontinued the practice of accounting for town road monies in an agency fund and began recognizing the revenues and expenditures in the Public Works Special Revenue Fund.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which establishes financial reporting for OPEB plans, and Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when

accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

This year, the legislature enacted a new law, Minn. Stat. § 471.6175, intended to help counties address their OPEB liability in at least three important ways:

- it allows counties to create both irrevocable and revocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both irrevocable and revocable OPEB trusts; and
- it also permits counties to invest OPEB trust assets with the State Board of Investment, bank trust departments and certain insurance companies.

Some of the issues that the County Board will need to address in order to comply with GASB Statements 43 and 45 are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;
- if an OPEB trust will be established, the County will have to decide whether to establish an irrevocable or a revocable trust, and report that trust appropriately in the financial statements; and
- in order to determine annual costs and liabilities to be recognized, the County Board will have to decide whether to hire an actuary.

If applicable for Rock County, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2008 and 2009, respectively.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Board of County Commissioners
Rock County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County as of and for the year ended December 31, 2007, and have issued our report thereon dated September 30, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Rock County Rural Water District, which represents the amounts shown as the discretely presented component unit, as described in our report on Rock County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 05-1, 05-8 through 05-10, 06-2 through 06-5, 06-11, 07-1 and 07-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Rock County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 06-3 to be a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Rock County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 06-13 and 07-3.

Also included in the Schedule of Findings and Questioned Costs are management practices comments and an other item for consideration. We believe these recommendations and information to be of benefit to Rock County and they are reported for that purpose.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 30, 2008

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Rock County

Compliance

We have audited the compliance of Rock County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. Rock County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Rock County's financial statements include the operations of the Rock County Rural Water District component unit, which expended \$533,000 in federal awards during the year ended December 31, 2007, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Rock County Rural Water District because the Rural Water District had a separate single audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rock County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Rock County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

The management of Rock County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the County's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 06-12 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County as of and for the year ended December 31, 2007, and have issued our report thereon dated September 30, 2008. We did not audit the financial statements of the Rock County Rural Water District, which represents the amounts shown as the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed here, insofar as it relates to amounts included for the Rock County Rural Water District component unit, is based solely on the report of the other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rock County's written corrective action plan to the finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's plan and, accordingly, we express no opinion on it.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 30, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 8

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	\$ <u>837</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 234,118
Formula Grants for Other Than Urbanized Areas	20.509	134,198
State and Community Highway Safety	20.600	<u>1,985</u>
Total U.S. Department of Transportation		\$ <u>370,301</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 1,973
Temporary Assistance for Needy Families (TANF)	93.558	34,849
Child Care Cluster		
Child Care and Development Block Grant	93.575	1,947
Child Care Mandatory and Matching Funds	93.596	2,599
Child Welfare Services - State Grants	93.645	2,804
Foster Care - Title IV-E	93.658	34,051
Social Services Block Grant	93.667	73,209
Chafee Foster Care Independence Program	93.674	312
Block Grants for Community Mental Health Services	93.958	<u>905</u>
Total U.S. Department of Health and Human Services		\$ <u>152,649</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	\$ <u>9,424</u>
Total Federal Awards		\$ <u>533,211</u>

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**ROCK COUNTY
LUVERNE, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Rock County's primary government. The County's reporting entity is defined in Note 1 to the financial statements. Federal expenditures of the discretely presented component unit are not included.

2. Basis of Presentation

The accounting records for grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual--when both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Rock County considers all revenues to be available if they are collected within 60 days of the current period. Expenditures are recorded when the liability is incurred.

The information in the schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

3. Passed Through to Subrecipients

During 2007, the County did not pass any federal money to subrecipients.

4. Pass-Through Grant Numbers

Pass-through grant numbers were not assigned by the pass-through agencies.