

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

ROCK COUNTY
LUVERNE, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

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

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

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

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**ROCK COUNTY
LIVERNE, MINNESOTA**

Year Ended December 31, 2015



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

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**ROCK COUNTY
LIVERNE, MINNESOTA**

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**ROCK COUNTY
LIVERNE, MINNESOTA**

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**ROCK COUNTY
LIVERNE, MINNESOTA**

**ORGANIZATION SCHEDULE
2015**

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

*Chair 2016

**Chair 2015

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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
Luverne, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County as of December 31, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Rock County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2016, on our consideration of Rock County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rock County's internal control over financial reporting and compliance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 14, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**ROCK COUNTY
LUVERNE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(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, 2015. 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 County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$57,596,389, of which \$55,555,360 represents net investment in capital assets, and \$1,373,840 is restricted to specific purposes. The \$667,189 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net position increased by \$1,789,603 for the year ended December 31, 2015, after the restatement for Governmental Accounting Standards Board (GASB) Statements 68, 71, and 82. A large part of the increase is attributable to the County's net investment in capital assets.
- The net cost of governmental activities for the current fiscal year was \$4,458,312. General revenues and other items totaling \$6,247,915 funded the net cost.
- At the close of 2015, Rock County's combined ending governmental fund balances totaled \$7,016,674, a decrease of \$1,623,383 from 2014. Of this balance, \$2,146,909 was unassigned by Rock County and thus available for spending at the government's discretion.
- For the year ended December 31, 2015, the assigned and unassigned balance of the General Fund was \$3,546,115, or 59.1 percent, of the total General Fund expenditures for that year. This represents a increase from 2014, which had 54.6 percent of the total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

Fund Level Financial Statements

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

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

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

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

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

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

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

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30 through 93 of this report.

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. Rock County's assets exceeded liabilities by \$57,596,389 at the close of 2015. The largest portion of Rock County's net position (96.5 percent) reflects the County's net investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges), less any related outstanding debt used to acquire those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Net Position

	Governmental Activities	
	2015	2014
Assets		
Current and other assets	\$ 9,434,549	\$ 10,878,271
Capital assets	62,265,040	57,912,318
Total Assets	\$ 71,699,589	\$ 68,790,589
Deferred Outflows of Resources		
Deferred pension outflows	\$ 642,863	\$ -
Liabilities		
Long-term liabilities	\$ 12,267,025	\$ 8,238,738
Current liabilities	549,214	1,181,895
Total Liabilities	\$ 12,816,239	\$ 9,420,633
Deferred Inflows of Resources		
Advances from other governments	\$ 1,526,717	\$ 500,715
Deferred pension inflows	403,107	-
Total Deferred Inflows of Resources	\$ 1,929,824	\$ 500,715
Net Position		
Net investment in capital assets	\$ 55,555,360	\$ 52,859,646
Restricted	1,373,840	1,385,674
Unrestricted	667,189	4,623,921
Total Net Position, as reported	\$ 57,596,389	\$ 58,869,241
Change in accounting principle*		(3,062,455)
Total Net Position, as restated		\$ 55,806,786

*This is the first year the County implemented the new pension accounting and financial reporting standards, GASB Statements 68, 71, and 82. The County had to make a prior year change in accounting principle to record the County's net pension liability and related deferred outflows of resources.

Unrestricted net position--the part of net position that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--was 1.2 percent of the net position.

Governmental Activities

The County's governmental activities increased net position by 3.2 percent (\$57,596,389 for 2015 compared to \$55,806,786 for 2014). Key elements in this increase in net position are as follows for 2015, with comparative data for 2014:

Changes in Net Position

	Governmental Activities	
	2015	2014
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 2,447,839	\$ 2,301,175
Operating grants and contributions	4,552,741	5,206,124
Capital grants and contributions	1,454,543	875,660
General revenues		
Property and other taxes	5,689,105	5,501,629
Unrestricted state aid	368,806	275,172
Investment income	41,807	47,117
Other	148,197	112,740
Total Revenues	\$ 14,703,038	\$ 14,319,617
Expenses		
General government	\$ 2,307,594	\$ 2,615,942
Public safety	2,168,362	2,114,464
Highways and streets	5,387,104	5,745,945
Sanitation	830,261	793,174
Human services	1,140,463	1,122,489
Health	87,031	74,922
Culture and recreation	427,148	383,501
Conservation of natural resources	359,968	426,763
Economic development	500	1,940
Interest	205,004	100,414
Total Expenses	\$ 12,913,435	\$ 13,379,554
Change in Net Position	\$ 1,789,603	\$ 940,063
Net Position - January 1, as restated	55,806,786*	57,929,178
Net Position - December 31, as reported	\$ 57,596,389	\$ 58,869,241

*Amount includes a change in accounting principles.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$7,016,674, a decrease of \$1,623,383 in comparison with the prior year. Of the combined ending fund balances, \$3,695,808 represents unrestricted (committed, assigned, and unassigned) fund balance, which is available for spending at the County's discretion. The

remainder of the fund balance is classified as either nonspendable or restricted to indicate that it is not available for new spending because it has already been restricted for various reasons either by state law, grant agreements, bond covenants, or is nonspendable.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unrestricted (committed, assigned, and unassigned) fund balance of \$3,696,115. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted (committed, assigned, and unassigned) fund balance to total expenditures. The General Fund's unrestricted (committed, assigned, and unassigned) fund balance represents 61.6 percent of total General Fund expenditures. During 2015, the ending fund balance decreased by \$1,030,109. The primary reason for this decrease was due to the spending down of bond proceeds.

The Public Works Special Revenue Fund had an unassigned fund balance of (\$659,539) at fiscal year-end. The ending fund balance decreased \$534,176 during 2015, primarily due an advancement of future allotments for highway projects.

The Family Services Special Revenue Fund had an assigned fund balance of \$95,856 at fiscal year-end, representing 8.4 percent of its annual expenditures. The ending fund balance decreased \$7,940 during 2015.

The Land Management Special Revenue Fund had an assigned fund balance of \$563,367 at fiscal year-end, representing 91.5 percent of its annual expenditures. The ending fund balance decreased \$57,142 during 2015, primarily due to budgeted use of reserves.

The Ditch Special Revenue Fund had a restricted fund balance of \$278,056 at fiscal year-end, representing 322.8 percent of its annual expenditures. The ending fund balance decreased \$11,226 during 2015.

The Debt Service Fund had a restricted fund balance of \$387,947 at fiscal year-end, representing 52.4 percent of its annual expenditures. The ending fund balance increased \$17,210. The Debt Service Fund consists of tax levy dollars used to pay the bond for the construction of the Law Enforcement Center and bonds for highway capital equipment and infrastructure.

Governmental Activities

The County's total revenues were \$14,703,038. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2015.

**Table 1
Total County Revenues**

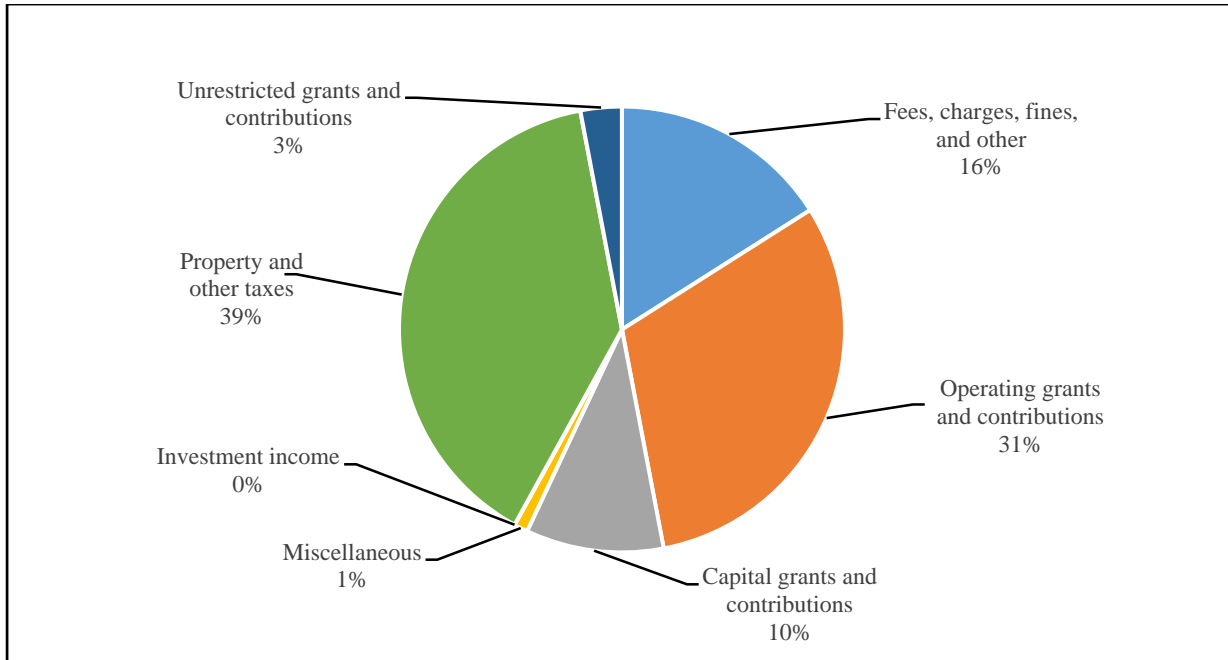
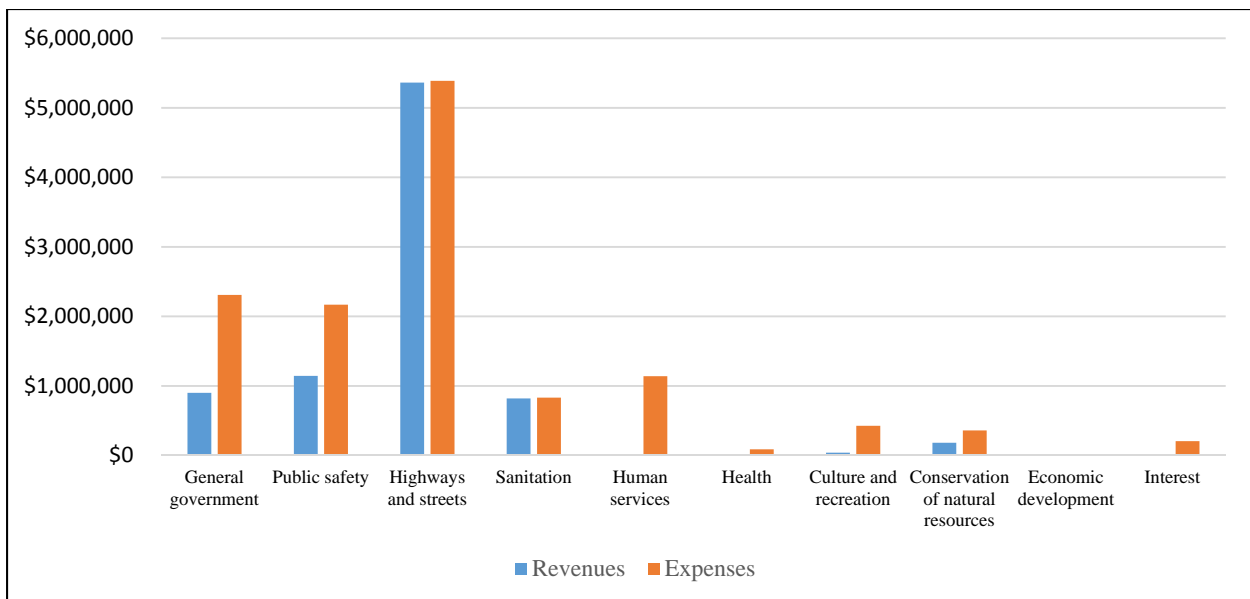


Table 2 presents the cost and revenue of each program of the County. Total program and general revenues for the County were \$14,703,038, while total expenses were \$12,913,435. This reflects a \$1,789,603 increase in net position for the year ended December 31, 2015.

**Table 2
Total Program Revenues and Expenses**



The cost of all governmental activities this year was \$12,913,435. However, as shown on the Statement of Activities on Exhibit 2, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$4,458,312 because some of the costs were paid by those who directly benefited from the programs (\$2,447,839) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,007,284). The County paid for the remaining “public benefit” portion of governmental activities with \$6,247,915 in general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs, and investment income.

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

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost (Revenue) of Services	
	2015	2014	2015	2014
Highways and streets	\$ 5,387,104	\$ 5,745,945	\$ 23,720	\$ 449,840
General government	2,307,594	2,615,942	1,407,235	1,769,385
Public safety	2,168,362	2,114,464	1,023,719	968,431
Human services	1,140,463	1,122,489	1,136,498	1,118,883
All others	1,909,912	1,780,714	867,140	690,056
Totals	\$ 12,913,435	\$ 13,379,554	\$ 4,458,312	\$ 4,996,595

General Fund Budgetary Highlights

Actual General Fund revenues exceeded final budgeted revenues by \$1,059,353 primarily due to greater than expected grants and other intergovernmental aid and the receipt of the first full year of wind production tax.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County’s capital assets for its governmental activities at December 31, 2015, totaled \$62,265,040 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$4,352,722, or 7.5 percent, from the previous year. The major capital asset events were additions to:

Infrastructure	\$ 4,719,094
Machinery and equipment	859,571

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

	<u>2015</u>	<u>2014</u>
Land	\$ 1,212,882	\$ 1,212,882
Construction in progress	656,002	23,825
Works of art and historical treasures	620,000	610,000
Infrastructure	48,324,506	44,929,745
Buildings	7,700,551	7,667,256
Land improvements	152,677	163,782
Machinery, equipment, and vehicles	3,598,422	3,304,828
Total	<u><u>\$ 62,265,040</u></u>	<u><u>\$ 57,912,318</u></u>

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

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of \$8,190,396, which was backed by the full faith and credit of the government.

Table 5
Outstanding Debt

	<u>2015</u>	<u>2014</u>
General obligation bonds	\$ 7,565,000	\$ 7,005,000
Capital leases	121,118	73,463
Loans payable	504,278	516,271
Total	<u><u>\$ 8,190,396</u></u>	<u><u>\$ 7,594,734</u></u>

Minnesota statutes limit the amount of debt a county may levy to three percent of its total market value. At the end of 2015, the County's outstanding debt was 0.26 percent of its total estimated market value of \$3,172,465,300.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- The unemployment rate for Rock County at the end of 2015 was 2.1 percent. This compares favorably with the state unemployment rate of 3.7 percent. The 2014 population is estimated at 9,601.
- On December 22, 2015, the Rock County Board of Commissioners approved the 2016 budget and adopted a property tax levy of \$5,153,362, which represents a 2.88 percent increase over the 2015 property tax levy of \$5,009,217.

Rock County Tax Rate and Levy History

2016	19.841%	\$5,153,362
2015	18.241	5,009,217
2014	18.890	4,821,191
2013	24.639	4,682,771
2012	29.144	4,597,714
2011	29.599	4,485,575
2010	28.573	4,170,151
2009	32.755	3,801,061
2008	35.717	3,654,847
2007	36.798	3,481,138

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

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT 1

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

	Primary Government Governmental Activities	Component Unit Rock County Rural Water District
<u>Assets</u>		
Cash and pooled investments	\$ 5,525,267	\$ 879,433
Investments	2,547,665	451,808
Investments - restricted	-	1,175,000
Receivables	1,310,889	824,597
Receivables - restricted	-	775,449
Inventories	44,198	253,172
Prepaid items	6,530	9,240
Other postemployment benefits receivable	-	1,042
Capital assets		
Non-depreciable capital assets	2,488,884	5,094,499
Depreciable capital assets - net of accumulated depreciation	59,776,156	3,507,387
Total Assets	\$ 71,699,589	\$ 12,971,627
<u>Deferred Outflows of Resources</u>		
Deferred pension outflows	\$ 642,863	\$ 29,784
<u>Liabilities</u>		
Accounts payable and other current liabilities	\$ 373,828	\$ 822,890
Accrued interest payable	60,205	3,176
Customer deposits	19,328	3,130
Unearned revenue	95,853	-
Long-term liabilities		
Due within one year	786,339	2,565,357
Due in more than one year	7,911,969	572,766
Other postemployment benefits payable	156,977	-
Net pension liability	3,411,740	212,691
Total Liabilities	\$ 12,816,239	\$ 4,180,010
<u>Deferred Inflows of Resources</u>		
Deferred pension inflows	\$ 403,107	\$ 21,433
Advances from other governments	1,526,717	-
Total Deferred Inflows of Resources	\$ 1,929,824	\$ 21,433

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

***EXHIBIT 1
(Continued)***

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

	<u>Primary Government Governmental Activities</u>	<u>Component Unit Rock County Rural Water District</u>
<u>Net Position</u>		
Net investment in capital assets	\$ 55,555,360	\$ 5,480,011
Restricted for		
Public safety	387,815	-
Highways and streets	72,458	-
Debt service	347,139	-
Conservation of natural resources	255,075	-
Rural water distribution system	-	1,950,449
Other purposes	311,353	-
Unrestricted	<u>667,189</u>	<u>1,369,508</u>
Total Net Position	<u><u>\$ 57,596,389</u></u>	<u><u>\$ 8,799,968</u></u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 2,307,594	\$ 525,872
Public safety	2,168,362	944,806
Highways and streets	5,387,104	181,445
Sanitation	830,261	750,266
Human services	1,140,463	3,965
Health	87,031	-
Culture and recreation	427,148	7,082
Conservation of natural resources	359,968	34,403
Economic development	500	-
Interest	205,004	-
	\$ 12,913,435	\$ 2,447,839
Total Governmental Activities	\$ 12,913,435	\$ 2,447,839
 Component Unit		
Rock County Rural Water District	\$ 1,049,153	\$ 963,349

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

Total general revenues

Change in net position

**Net Position - Beginning, as restated
(Notes 1.E. and 7.A.)**

Net Position - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Unit Rock County Rural Water District
\$ 256,881	\$ 117,606	\$ (1,407,235)	
199,837	-	(1,023,719)	
3,845,002	1,336,937	(23,720)	
69,692	-	(10,303)	
-	-	(1,136,498)	
-	-	(87,031)	
32,646	-	(387,420)	
148,683	-	(176,882)	
-	-	(500)	
-	-	(205,004)	
\$ 4,552,741	\$ 1,454,543	\$ (4,458,312)	
\$ -	\$ 2,063,570		\$ 1,977,766
		\$ 4,919,158	\$ -
		717,144	-
		19,712	-
		33,091	-
		368,806	611
		41,807	17,129
		148,197	-
		\$ 6,247,915	\$ 17,740
		\$ 1,789,603	\$ 1,995,506
		55,806,786	6,804,462
		\$ 57,596,389	\$ 8,799,968

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**ROCK COUNTY
LUVERNE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	General	Public Works
<u>Assets</u>		
Cash and pooled investments	\$ 3,952,337	\$ 104,253
Petty cash and change funds	1,475	75
Investments	1,680,500	862,165
Taxes receivable		
Prior	14,145	4,059
Special assessments receivable		
Prior	-	-
Noncurrent	-	-
Accounts receivable	62,220	98,863
Accrued interest receivable	1,841	1,043
Loans receivable	424,391	-
Due from other governments	103,904	12,440
Due from other funds	-	1,138
Inventories	-	44,198
Prepaid items	4,242	2,210
	\$ 6,245,055	\$ 1,130,444
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 110,070	\$ 69,147
Salaries payable	40,279	21,493
Contracts payable	-	37,375
Due to other governments	70,137	3,852
Due to other funds	1,138	-
Unearned revenue	-	-
Customer deposits	1,328	-
	\$ 222,952	\$ 131,867
Deferred Inflows of Resources		
Unavailable revenue	\$ 15,785	\$ 9,869
Advance from other governments	-	1,526,717
	\$ 15,785	\$ 1,536,586

EXHIBIT 3

<u>Family Services</u>	<u>Land Management</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ 95,856	\$ 705,268	\$ 278,056	\$ 387,947	\$ 5,523,717
-	-	-	-	1,550
-	5,000	-	-	2,547,665
5,750	136	-	1,577	25,667
-	9,362	3,409	-	12,771
-	-	356,255	-	356,255
-	-	-	-	161,083
-	6	-	-	2,890
-	182,705	-	-	607,096
-	28,783	-	-	145,127
-	-	-	-	1,138
-	-	-	-	44,198
-	78	-	-	6,530
<u>\$ 101,606</u>	<u>\$ 931,338</u>	<u>\$ 637,720</u>	<u>\$ 389,524</u>	<u>\$ 9,435,687</u>
\$ -	\$ 15,524	\$ -	\$ -	\$ 194,741
-	5,951	-	-	67,723
-	-	-	-	37,375
-	-	-	-	73,989
-	-	-	-	1,138
-	95,853	-	-	95,853
-	18,000	-	-	19,328
<u>\$ -</u>	<u>\$ 135,328</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 490,147</u>
\$ 5,750	\$ 9,504	\$ 359,664	\$ 1,577	\$ 402,149
-	-	-	-	1,526,717
<u>\$ 5,750</u>	<u>\$ 9,504</u>	<u>\$ 359,664</u>	<u>\$ 1,577</u>	<u>\$ 1,928,866</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	General	Public Works
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> (Continued)		
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 44,198
Loans receivable	424,391	-
Prepaid items	4,242	2,210
Missing heirs	3,549	-
Restricted for		
Law library	7,010	-
Gun permit fees	33,185	-
Recorder's technology fund	46,040	-
Recorder's compliance fund	161,714	-
Enhanced 911	334,232	-
Septic system loans	-	-
Sheriff's contingency	1,873	-
Sheriff's forfeited property	18,525	-
Attorney forfeitures	1,250	-
Transportation	95,339	-
Unspent bond proceeds	1,178,853	-
Highway allotments	-	75,122
Ditch maintenance and repairs	-	-
Debt service	-	-
Committed to		
Historical society	150,000	-
Assigned to		
Family services	-	-
Land management	-	-
Capital improvements	250,000	-
Capital equipment	426,542	-
Elections	63,125	-
Unassigned	2,806,448	(659,539)
Total Fund Balances	\$ 6,006,318	\$ (538,009)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 6,245,055	\$ 1,130,444

EXHIBIT 3
(Continued)

<u>Family Services</u>	<u>Land Management</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 44,198
-	182,705	-	-	607,096
-	78	-	-	6,530
-	-	-	-	3,549
-	-	-	-	7,010
-	-	-	-	33,185
-	-	-	-	46,040
-	-	-	-	161,714
-	-	-	-	334,232
-	40,347	-	-	40,347
-	-	-	-	1,873
-	-	-	-	18,525
-	-	-	-	1,250
-	-	-	-	95,339
-	-	-	-	1,178,853
-	-	-	-	75,122
-	-	278,056	-	278,056
-	-	-	387,947	387,947
-	-	-	-	150,000
95,856	-	-	-	95,856
-	563,376	-	-	563,376
-	-	-	-	250,000
-	-	-	-	426,542
-	-	-	-	63,125
-	-	-	-	2,146,909
\$ 95,856	\$ 786,506	\$ 278,056	\$ 387,947	\$ 7,016,674
\$ 101,606	\$ 931,338	\$ 637,720	\$ 389,524	\$ 9,435,687

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**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

Fund balance - total governmental funds (Exhibit 3)	\$	7,016,674
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		62,265,040
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.		642,863
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		402,149
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (7,565,000)	
Unamortized bond discount	17,613	
Unamortized bond premium	(172,094)	
Net pension liability	(3,411,740)	
Capital leases	(121,118)	
Loans payable	(504,278)	
Compensated absences	(353,431)	
Other postemployment benefits payable	(156,977)	
Accrued interest payable	<u>(60,205)</u>	(12,327,230)
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period, and, therefore, are not reported in governmental funds.		<u>(403,107)</u>
Net Position of Governmental Activities (Exhibit 1)		<u><u>\$ 57,596,389</u></u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General	Public Works
Revenues		
Taxes	\$ 3,468,516	\$ 788,475
Special assessments	-	-
Licenses and permits	20,460	-
Intergovernmental	846,967	5,385,017
Charges for services	1,333,020	620,600
Fines and forfeits	23,042	-
Gifts and contributions	1,873	-
Investment earnings	35,662	4,709
Miscellaneous	192,004	99,058
	\$ 5,921,544	\$ 6,897,859
Expenditures		
Current		
General government	\$ 3,071,327	\$ -
Public safety	1,974,031	-
Highways and streets	-	8,435,335
Sanitation	-	523,997
Health	16,800	-
Culture and recreation	431,837	-
Conservation of natural resources	134,310	-
Economic development	500	-
Intergovernmental	159,973	299,954
Capital outlay		
General government	137,820	-
Debt service		
Principal	28,098	-
Interest	1,582	-
Administrative (fiscal) charges	-	-
Bond issuance costs	45,752	-
	\$ 6,002,030	\$ 9,259,286

EXHIBIT 5

Family Services	Land Management	Ditch	Debt Service	Total
\$ 1,062,642	\$ 22,469	\$ -	\$ 318,708	\$ 5,660,810
-	216,497	74,907	-	291,404
-	56,539	-	-	76,999
76,414	221,091	-	22,908	6,552,397
-	3,402	-	-	1,957,022
-	-	-	-	23,042
-	-	-	-	1,873
-	38	-	1,274	41,683
-	3,180	-	-	294,242
\$ 1,139,056	\$ 523,216	\$ 74,907	\$ 342,890	\$ 14,899,472
\$ 6,533	\$ 53,952	\$ -	\$ -	\$ 3,131,812
-	-	-	-	1,974,031
-	-	-	-	8,435,335
-	324,142	-	-	848,139
-	-	-	-	16,800
-	-	-	-	431,837
-	219,440	-	-	353,750
-	-	-	-	500
1,140,463	-	-	-	1,600,390
-	-	-	-	137,820
-	15,281	70,000	591,895	705,274
-	2,726	15,638	147,816	167,762
-	-	495	931	1,426
-	-	-	-	45,752
\$ 1,146,996	\$ 615,541	\$ 86,133	\$ 740,642	\$ 17,850,628

**ROCK COUNTY
LIVERNE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>General</u>	<u>Public Works</u>
Excess of Revenues Over (Under) Expenditures	\$ (80,486)	\$ (2,361,427)
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ 1,837,866
Transfers out	(2,252,828)	-
Loans issued	-	-
Bonds issued	1,190,000	-
Premium on bonds issued	32,550	-
Capital leases	75,753	-
Proceeds from the sale of capital assets	4,902	3,099
Total Other Financing Sources (Uses)	\$ (949,623)	\$ 1,840,965
Net Change in Fund Balance	\$ (1,030,109)	\$ (520,462)
Fund Balance - January 1	7,036,427	(3,833)
Increase (decrease) in inventories	-	(13,714)
Fund Balance - December 31	\$ 6,006,318	\$ (538,009)

EXHIBIT 5
(Continued)

Family Services	Land Management	Ditch	Debt Service	Total
<u>\$ (7,940)</u>	<u>\$ (92,325)</u>	<u>\$ (11,226)</u>	<u>\$ (397,752)</u>	<u>\$ (2,951,156)</u>
\$ -	\$ -	\$ -	\$ 414,962	\$ 2,252,828
-	-	-	-	(2,252,828)
-	35,183	-	-	35,183
-	-	-	-	1,190,000
-	-	-	-	32,550
-	-	-	-	75,753
-	-	-	-	8,001
<u>\$ -</u>	<u>\$ 35,183</u>	<u>\$ -</u>	<u>\$ 414,962</u>	<u>\$ 1,341,487</u>
\$ (7,940)	\$ (57,142)	\$ (11,226)	\$ 17,210	\$ (1,609,669)
103,796	843,648	289,282	370,737	8,640,057
-	-	-	-	(13,714)
<u>\$ 95,856</u>	<u>\$ 786,506</u>	<u>\$ 278,056</u>	<u>\$ 387,947</u>	<u>\$ 7,016,674</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT 6

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

Net change in fund balance - total governmental funds (Exhibit 5) \$ (1,609,669)

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

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

Deferred inflows of resources - December 31	\$ 402,149	
Deferred inflows of resources - January 1	<u>(612,134)</u>	(209,985)

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	\$ 6,450,828	
Current year depreciation	<u>(2,098,106)</u>	4,352,722

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

General obligation bonds issued	\$ (1,190,000)	
Premium on bonds issued	(32,550)	
Capital lease purchases	(75,753)	
Loans issued	<u>(35,183)</u>	(1,333,486)

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

Principal repayments		
General obligation bonds	\$ 630,000	
Capital leases	28,098	
Loan payments	<u>47,176</u>	705,274

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	\$ 31,923	
Change in other postemployment benefits payable	(33,374)	
Change in accrued interest payable	(3,675)	
Change in net pension liability, as restated	(188,052)	
Change in deferred outflows of resources, as restated	481,630	
Change in deferred inflows of resources	(403,107)	
Amortization of discount and premium on bonds	13,116	
Change in inventories	<u>(13,714)</u>	<u>(115,253)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,789,603

FIDUCIARY FUNDS

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**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2015**

<u>Assets</u>	
Cash and pooled investments	<u>\$ 418,828</u>
 <u>Liabilities</u>	
Salaries payable	\$ 10,850
Due to other governments	<u>407,978</u>
Total Liabilities	<u>\$ 418,828</u>

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**ROCK COUNTY
LIVERNE, MINNESOTA**

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

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

Discretely Presented Component Unit

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Unit (Continued)

Water District was established in 1978 to provide water to rural residents of Rock County with the powers, duties, and privileges granted it by Minn. Stat. ch. 116A. Separate financial statements can be obtained from the Rock County Auditor/Treasurer, located at 204 East Brown Street, Luverne, Minnesota 56156.

Joint Ventures and Jointly-Governed Organizations

The County participates in several joint ventures described in Note 6.B. The County also participates in 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 position and the statement of activities) display information about the primary government and its component unit. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which are normally supported by taxes and intergovernmental revenue, are reported separately.

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

Additionally, the County reports the following fiduciary fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor-Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2015, 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 2015 were \$20,246 for the County.

3. Receivables and Payables

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables (Continued)

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

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

Special assessments receivable consist of prior special assessments payable in the years 2009 through 2015 and noncurrent special assessments payable in 2016 and after. Unpaid special assessments at December 31 are classified in the financial statements as prior special assessments.

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

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

4. Inventories and Prepaid Items

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Restricted Assets

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. The Rock County Rural Water District defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Compensated Absences

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

8. Long-Term Obligations

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Pension Plan

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

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, pension plan changes in proportionate share, and also the difference between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has three types of deferred inflows. The governmental funds report unavailable revenue from delinquent taxes receivable, delinquent and deferred special assessments receivable, interest receivable, and grant monies receivable, for amounts that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under a modified accrual

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Deferred Outflows/Inflows of Resources (Continued)

basis of accounting and accordingly, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also has an advance from other governments which is reported as a deferred inflow. The advance from other governments arises under both the modified and the full accrual basis of accounting. Advances are recognized when timing requirements have been met. The County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

11. Unearned/Unavailable Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received but not yet earned. Governmental funds report unavailable revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period.

12. Classification of Net Position

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

- Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Classification of Net Position (Continued)

- Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

13. Classification of Fund Balances

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

- Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.
- Restricted - amounts in which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.
- Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board, the County Administrator, or the County Auditor/Treasurer, who have been delegated that authority by Board resolution.

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

13. Classification of Fund Balances (Continued)

- Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

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

14. Minimum Fund Balance

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

15. 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. Change in Accounting Principles

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

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

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

GASB Statements 68 and 71 require the County to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the County's net pension liability and related deferred outflows of resources as follows:

	Governmental Activities
Net Position, January 1, 2015, as previously reported	\$ 58,869,241
Change in accounting principles	
Net pension liability	(3,223,688)
Deferred outflows of resources	161,233
	\$ 55,806,786
Net Position, January 1, 2015, as restated	

**ROCK COUNTY
LIVERNE, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Deficit Fund Balance

The Public Works Special Revenue Fund had a deficit fund balance of \$538,009 at December 31, 2015, primarily due to receiving an advance from other governments. The deficit fund balance will be eliminated through a combination of spending reductions, increased allotments, or a transfer from the General Fund.

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 5,525,267
Investments	2,547,665
Statement of fiduciary net position	
Cash and pooled investments	<u>418,828</u>
Total Cash and Investments	<u>\$ 8,491,760</u>
Petty cash and change funds	\$ 1,550
Checking	4,059,867
Savings	1,882,678
Certificates of deposit	<u>2,547,665</u>
Total Deposits and Investments	<u>\$ 8,491,760</u>

a. Deposits

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County’s policy is to minimize deposit custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2015, the County’s deposits were not exposed to custodial credit risk.

b. Investments

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

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage are available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31 2015, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

2. Receivables

Receivables as of December 31, 2015, for the County's governmental activities are as follows:

	Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 25,667	\$ -
Special assessments	369,026	296,879
Accounts receivable	161,083	-
Interest	2,890	-
Loans receivable	607,096	309,369
Due from other governments	145,127	-
	\$ 1,310,889	\$ 606,248

3. Loans Receivable

The General Fund has a loans receivable balance of \$424,391 as follows:

In March 2012, the County approved a \$150,000 loan to the Southwestern Mental Health Center, Inc., to bridge a financing gap for a building project. The loan is to be repaid with semi-annual repayments of \$3,336 each year, which includes interest on the unpaid principal at two percent beginning October 15, 2013, and ending March 1, 2043. The loan was issued during July 2013. As of December 31, 2015, the remaining balance on this loan is \$139,391.

In May 2013, the County issued a \$100,000 no-interest loan to the Rock County Agricultural Society to assist with fundraising gaps. Repayment is scheduled in \$20,000 installments beginning in 2014 and ending in 2018 with the intention to pay off early. As of December 31, 2015, the remaining balance on this loan was \$35,000.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Loans Receivable (Continued)

In June 2014, the County issued a \$750,000 loan to the Buffalo Ridge Regional Rail Authority to assist with flooding damages until reimbursement from the Federal Emergency Management Agency was received. As of December 31, 2015, \$250,000 was outstanding. The loan will not be repaid until the County hires a vendor to properly dispose of railroad ties.

The Land Management Special Revenue Fund has a \$182,705 loans receivable balance from septic loans issued in 2010 through 2015. Loans receivable activity for Minnesota Pollution Control Agency (MPCA) septic system loans is as follows:

Loans receivable, January 1, 2015	\$	167,673
New loans issued during the year - MPCA		35,183
Payments received during the year		(20,151)
Loans Receivable	\$	182,705

4. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 193,861	\$ -	\$ -	\$ 193,861
Right-of-way	1,019,021	-	-	1,019,021
Construction in progress	23,825	656,002	23,825	656,002
Works of art and historical treasures	610,000	10,000	-	620,000
Total capital assets not depreciated	\$ 1,846,707	\$ 666,002	\$ 23,825	\$ 2,488,884
Capital assets depreciated				
Buildings	\$ 10,409,387	\$ 229,986	\$ -	\$ 10,639,373
Land improvements	242,912	-	-	242,912
Machinery, furniture, and equipment	6,924,753	859,571	239,980	7,544,344
Infrastructure	61,497,670	4,719,094	-	66,216,764
Total capital assets depreciated	\$ 79,074,722	\$ 5,808,651	\$ 239,980	\$ 84,643,393

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

4. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 2,742,131	\$ 196,691	\$ -	\$ 2,938,822
Land improvements	79,130	11,105	-	90,235
Machinery, furniture, and equipment	3,619,925	565,977	239,980	3,945,922
Infrastructure	16,567,925	1,324,333	-	17,892,258
	<u>\$ 23,009,111</u>	<u>\$ 2,098,106</u>	<u>\$ 239,980</u>	<u>\$ 24,867,237</u>
Total accumulated depreciation				
Total capital assets depreciated, net	\$ 56,065,611	\$ 3,710,545	\$ -	\$ 59,776,156
Capital Assets, Net	<u>\$ 57,912,318</u>	<u>\$ 4,376,547</u>	<u>\$ 23,825</u>	<u>\$ 62,265,040</u>

Construction in progress consists of amounts completed on open road projects and remodel of the library.

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

Governmental Activities	
General government	\$ 269,064
Public safety	128,315
Highways and streets (including depreciation of infrastructure assets)	1,607,245
Sanitation	37,560
Culture and recreation	55,922
	<u>2,098,106</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,098,106</u>

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2015, is as follows:

Receivable Fund	Payable Fund	Amount
Public Works Special Revenue	General	\$ 1,138

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2015, consisted of the following:

Transfer from General Fund to Public Works Special Revenue Fund	\$	1,837,866	Transfer of bond proceeds and wind production tax revenue
Transfer from General Fund to Debt Service Fund		414,962	Transfer of wind production tax revenue
Total Transfers	\$	2,252,828	

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2015, were as follows:

		Primary Government
Accounts payable	\$	194,741
Salaries payable		67,723
Contracts payable		37,375
Due to other governments		73,989
Total Payables	\$	373,828

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

2. Unearned Revenues/Deferred Inflows of Resources

Unearned revenues and deferred inflows of resources consist of special assessments, taxes, state and federal grants, and interest not collected soon enough after year-end to pay liabilities of the current period, and state and federal grants received but not yet earned. Unearned revenues and deferred inflows of resources at December 31, 2015, are summarized below by fund:

	Special Assessments	Taxes	Grants	Interest	Total
Governmental funds					
General Fund	\$ -	\$ 14,145	\$ -	\$ 1,640	\$ 15,785
Special Revenue					
Public Works	-	4,059	1,531,520	1,007	1,536,586
Family Services	-	5,750	-	-	5,750
Land Management	9,362	136	95,853	6	105,357
Ditch	359,664	-	-	-	359,664
Debt Service Fund	-	1,577	-	-	1,577
Total	<u>\$ 369,026</u>	<u>\$ 25,667</u>	<u>\$ 1,627,373</u>	<u>\$ 2,653</u>	<u>\$ 2,024,719</u>
Liability					
Unearned revenue	\$ -	\$ -	\$ 95,853	\$ -	\$ 95,853
Deferred inflows of resources					
Advance from other governments	-	-	1,526,717	-	1,526,717
Unavailable revenue	<u>369,026</u>	<u>25,667</u>	<u>4,803</u>	<u>2,653</u>	<u>402,149</u>
Total	<u>\$ 369,026</u>	<u>\$ 25,667</u>	<u>\$ 1,627,373</u>	<u>\$ 2,653</u>	<u>\$ 2,024,719</u>

3. Construction Commitments

Rock County did not have any active construction projects except for highway projects that are state-funded and, therefore, not obligations of the County at December 31, 2015.

4. Capital Leases

In 2015, Rock County entered into lease agreements as lessee for financing the acquisition of squad cars for the Sheriff's Department. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Capital Leases (Continued)

Capital leases consist of the following at December 31, 2015:

Lease	Final Maturity	Installments	Payment Amount	Original Issue Amount	Outstanding Balance December 31, 2015
2014 Ford Interceptor Utility	2018	Monthly	\$ 591	\$ 26,222	\$ 14,794
2014 Ford Interceptor Sedan	2018	Monthly	517	24,367	14,393
2014 Ford Interceptor Utility	2021	Monthly	424	34,978	26,769
2015 Ford Interceptor Utility	2019	Monthly	558	25,903	20,684
2015 Ford Interceptor Utility	2019	Monthly	515	23,789	18,960
2016 Ford Interceptor Utility	2019	Monthly	543	26,061	25,518
Total Capital Leases					<u>\$ 121,118</u>

Capital lease payments for the squad cars are paid for from the General Fund. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2015, were as follows:

Year Ending December 31	Governmental Activities
2016	\$ 37,793
2017	37,793
2018	27,738
2019	13,212
2020	5,093
2021	1,698
Total minimum lease payments	\$ 123,327
Less: amount representing interest	<u>(2,209)</u>
Present Value of Minimum Lease Payments	<u>\$ 121,118</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

5. Long-Term Debt

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2015
Special assessment bonds with government commitment					
2010 G.O. Ditch Bonds	2021	\$70,000 - \$85,000	1.25 - 3.50	<u>\$ 750,000</u>	\$ 470,000
Less: unamortized discounts					<u>(2,553)</u>
Special Assessment Bonds with Government Commitment, Net					<u>\$ 467,447</u>
General obligation bonds					
2015 G.O. Bonds, Series 2015B	2036	\$40,000 - \$70,000	3.00 - 3.75	\$ 1,190,000	\$ 1,190,000
2014 G.O. Capital Improvement Plan Bonds, Series 2014A	2025	\$320,000 - \$405,000	2.00 - 2.50	3,970,000	3,650,000
2012 G.O. Bonds, Series 2012A	2026	\$110,000 - \$270,000	2.00 - 2.40	<u>2,640,000</u>	<u>2,255,000</u>
Total general obligation bonds				<u>\$ 7,800,000</u>	\$ 7,095,000
Add: unamortized premium					172,094
Less: unamortized discounts					<u>(15,060)</u>
Total General Obligation Bonds, Net					<u>\$ 7,252,034</u>

In 2015, Rock County issued \$1,190,000 General Obligation Bonds, Series 2015B, to finance fiber optic infrastructure within the County, improvements to the County-owned library, and to pay costs associated with the issuance of bonds.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

5. Long-Term Debt (Continued)

Loans Payable

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

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

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Semi-Annual Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2015</u>
Loans payable					
Rock River Clean Water Partnership	2023	\$18,007	2.000	\$ 162,471	\$ 124,832
Rock River Clean Water Partnership Phase II	-	-	-	98,220	98,220
Lismore Telephone Company	2023	\$36,000	1.375	360,000	281,226
Total Loans Payable				<u>\$ 620,691</u>	<u>\$ 504,278</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Debt Service Requirements

Payments on General Obligation Bonds are made by the Debt Service Fund and payments on Special Assessment Bonds are made by the Ditch Special Revenue Fund. Debt service requirements at December 31, 2015, were as follows:

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2016	\$ 575,000	\$ 162,900	\$ 75,000	\$ 13,906
2017	625,000	150,800	75,000	11,844
2018	650,000	137,650	75,000	9,594
2019	655,000	124,150	80,000	7,075
2020	680,000	110,375	80,000	4,375
2021 - 2025	3,090,000	336,710	85,000	1,488
2026 - 2030	420,000	96,905	-	-
2031 - 2035	335,000	43,206	-	-
2036	65,000	1,219	-	-
Total	<u>\$ 7,095,000</u>	<u>\$ 1,163,915</u>	<u>\$ 470,000</u>	<u>\$ 48,282</u>

Debt payments on the loans payable are made from the General Fund. Debt service requirements at December 31, 2015, were as follows:

Year Ending December 31	Loans Payable	
	Principal	Interest
2016	\$ 47,924	\$ 6,083
2017	48,685	5,322
2018	49,458	4,549
2019	50,244	3,763
2020	51,043	2,964
2021 - 2023	158,704	3,828
Total	<u>\$ 406,058</u>	<u>\$ 26,509</u>

Loans of \$98,220 for Rock River Clean Water Partnership Phase II are not included in the debt service requirements because a fixed repayment schedule is not yet available. Loan repayments are made from the Land Management Special Revenue Fund.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

7. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds payable	\$ 6,465,000	\$ 1,190,000	\$ 560,000	\$ 7,095,000	\$ 575,000
Add: unamortized premiums	154,828	32,550	15,284	172,094	-
Less: unamortized discounts	<u>(16,591)</u>	<u>-</u>	<u>(1,531)</u>	<u>(15,060)</u>	<u>-</u>
General obligation bonds payable, net	<u>\$ 6,603,237</u>	<u>\$ 1,222,550</u>	<u>\$ 573,753</u>	<u>\$ 7,252,034</u>	<u>\$ 575,000</u>
Special assessment bonds with government commitment	\$ 540,000	\$ -	\$ 70,000	\$ 470,000	\$ 75,000
Less: unamortized discounts	<u>(3,190)</u>	<u>-</u>	<u>(637)</u>	<u>(2,553)</u>	<u>-</u>
Special assessment bonds with government commitment, net	<u>\$ 536,810</u>	<u>\$ -</u>	<u>\$ 69,363</u>	<u>\$ 467,447</u>	<u>\$ 75,000</u>
Total bonds payable	\$ 7,140,047	\$ 1,222,550	\$ 643,116	\$ 7,719,481	\$ 650,000
Capital leases	73,463	75,753	28,098	121,118	36,595
Loans payable	516,271	35,183	47,176	504,278	47,924
Compensated absences	<u>385,354</u>	<u>220,559</u>	<u>252,482</u>	<u>353,431</u>	<u>51,820</u>
Governmental Activities Long-Term Liabilities	<u>\$ 8,115,135</u>	<u>\$ 1,554,045</u>	<u>\$ 970,872</u>	<u>\$ 8,698,308</u>	<u>\$ 786,339</u>

For the governmental activities, compensated absences are liquidated by the General Fund, the Public Works Special Revenue Fund, and the Land Management Special Revenue Fund.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

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

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

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years and increasing 5 percent for each year of service until fully vested after 20 years.

2. Benefits Provided

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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

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

For General Employees Retirement Fund members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. For Public Employees Police and Fire Fund members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 55. Disability benefits are available for vested members and are based on years of service and average high-five salary.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015. Public Employees Police and Fire Fund members were required to contribute 10.80 percent of their annual covered salary in 2015.

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

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.50
Public Employees Police and Fire Fund	16.20

The General Employees Retirement Fund Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014. The Public Employees Police and Fire Fund member and employer contribution rates increased 0.60 percent and 0.90 percent, respectively, from 2014.

The County's contributions for the year ended December 31, 2015, to the pension plans were:

General Employees Retirement Fund	\$	215,092
Public Employees Police and Fire Fund		133,086

The contributions are equal to the contractually required contributions as set by state statute.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

4. Pension Costs

General Employees Retirement Fund

At December 31, 2015, the County reported a liability of \$2,445,941 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.0472 percent. It was 0.0593 percent measured as of June 30, 2014. The County recognized pension expense of \$284,073 for its proportionate share of the General Employees Retirement Fund's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 123,317
Difference between projected and actual investment earnings	231,546	-
Changes in proportion	-	123,169
Contributions paid to PERA subsequent to the measurement date	110,969	-
Total	\$ 342,515	\$ 246,486

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

The \$110,969 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2016	\$ (24,276)
2017	(24,276)
2018	(24,276)
2019	57,888

Public Employees Police and Fire Fund

At December 31, 2015, the County reported a liability of \$965,799 for its proportionate share of the Public Employees Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.085 percent. It was 0.078 percent measured as of June 30, 2014. The County recognized pension expense of \$178,977 for its proportionate share of the Public Employees Police and Fire Fund's pension expense.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

The County also recognized \$7,650 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Fund. Legislation requires the State of Minnesota to contribute \$9 million to the Public Employees Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded.

The County reported its proportionate share of the Public Employees Police and Fire Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 156,621
Difference between projected and actual investment earnings	168,275	-
Changes in proportion	63,002	-
Contributions paid to PERA subsequent to the measurement date	69,071	-
Total	\$ 300,348	\$ 156,621

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

The \$69,071 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ 23,345
2017	23,345
2018	23,345
2019	23,345
2020	(18,724)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2015, was \$463,050.

5. Actuarial Assumptions

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Fund and the Public Employees Police and Fire Fund, cost of living benefit increases for retirees are assumed to be 1.0 percent effective every January 1 through 2035 and 2037, respectively, and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for the Public Employees Police and Fire Fund was for the period July 1 2004, through June 30, 2009.

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

6. Discount Rate

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

7. Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate (6.9%)</u>	<u>Discount Rate (7.9%)</u>	<u>1% Increase in Discount Rate (8.9%)</u>
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 3,845,890	\$ 2,445,941	\$ 1,289,800
Public Employees Police and Fire Fund net pension liability	1,882,352	965,799	208,566

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

8. Pension Plan Fiduciary Net Position

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

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2015, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,427	\$ 2,427
Percentage of covered payroll	5%	5%

**ROCK COUNTY
LUCERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (Continued)

C. Other Postemployment Benefits (OPEB)

Plan Description

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

Funding Policy

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

The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2015, there were approximately 67 participants of the County in the plan, including 2 retirees. The implicit rate subsidy amount was determined by an actuary study to be \$14,339 for 2015 (\$9,622 for the County and \$4,717 for the Rock County Rural Water District).

The annual OPEB cost (expense) is allocated based on the County's contributions to retiree premiums through the General Fund, the Public Works Special Revenue Fund and the Land Management Special Revenue Fund.

Annual OPEB Cost and Net OPEB Obligation

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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

ARC	\$	47,684
Interest on net OPEB obligation		4,961
Adjustment to ARC		(9,649)
Annual OPEB cost (expense)	\$	42,996
Contributions made during the year		(9,622)
Increase in net OPEB obligation	\$	33,374
Net OPEB Obligation - Beginning of Year		123,603
Net OPEB Obligation - End of Year	\$	156,977

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

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2013	\$ 43,880	\$ 25,258	57.56%	\$ 104,258
December 31, 2014	43,519	24,174	55.55	123,603
December 31, 2015	42,996	9,622	22.38	156,977

Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, Rock County had no assets to fund the plan. The actuarial accrued liability for benefits was \$309,815, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$309,815. The covered payroll (annual payroll of active employees covered by the plan) was \$3,420,059, and the ratio of the UAAL to the covered payroll was 9.06 percent.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

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

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

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

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

**ROCK COUNTY
LUCERNE, MINNESOTA**

5. Risk Management

Rock County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For group employee health benefits, the County has entered into a joint powers agreement, the Southwest/West Central Service Cooperative. For all other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

Lincoln-Pipestone Rural Water System

At December 31, 2015, the Lincoln-Pipestone Rural Water System had \$32,402,123 of general obligation bonds and other loans outstanding through 2052. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

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

B. Joint Ventures

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

Southwest Health and Human Services

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

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

SWHHS is governed by the:

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Health and Human Services (Continued)

Financing is provided by state and federal grants and appropriations from member counties. Rock County's contribution in 2015 for the human services function was \$1,140,463, and its contribution to the health services function was \$70,231.

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

Lincoln-Pipestone Rural Water System

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

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

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2015, were \$33,402,123.

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Rock Nobles Community Corrections

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

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

Rock Nobles Community Corrections is headquartered in Worthington, Minnesota, with offices at the county seats of the member counties. Financing is provided by state grants and appropriations from member counties. Rock County's contribution to Rock Nobles Community Corrections for the year ended December 31, 2015, was \$89,742.

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

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

Southwest Minnesota Regional Emergency Communications Joint Powers Board

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Minnesota Regional Emergency Communications Joint Powers Board
(Continued)

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

Financing is provided by the appropriations from member parties and by state and federal grants. During 2015, Rock County did not contribute to the Joint Powers Board.

Southwest Regional Solid Waste Commission

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Regional Solid Waste Commission (Continued)

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

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

Rock County, in conjunction with Cottonwood, Lincoln, Lyon, Murray, Nobles, and Redwood Counties and the Southwest Regional Development Commission, pursuant to Minn. Stat. § 471.59, have formed an agreement to coordinate the delivery of volunteer services to non-profit community service entities and local units of government meeting the guidelines for receiving volunteer services under the authority of the counties. The entity known as Retired and Senior Volunteer Program of Southwest Minnesota (RSVP of Southwest Minnesota) changed its name to A.C.E. of Southwest Minnesota as of January 1, 2014. The Board comprises one voting member from each participating County and one voting member of the A.C.E. of Southwest Minnesota Advisory Council. In 2015, Rock County made contributions of \$14,531 to the A.C.E. of Southwest Minnesota.

Buffalo Ridge Drug Task Force

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

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Buffalo Ridge Regional Transit

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

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

Funding for operations shall be provided by grant funds and passenger revenues. In the event that grant funds and passenger revenues are insufficient to cover operation costs, each county shall agree to provide one-fourth of 15 percent of the operating budget for any calendar year provided, that in no event, shall any county pay more than \$5,118 for calendar year 2015. This funding cap is set for each year not later than September 1 of the preceding calendar year.

Plum Creek Library System

Rock County, along with 19 cities and 8 other counties, participates in the Plum Creek Library System. The Plum Creek Library System was created as a public library service on May 29, 1974, by the act of contracting with various public libraries in its region to provide expanded library service, with the additional purpose of furthering the public interest by providing the potential for extending public library services into areas without such services. The Plum Creek Library System is governed by a board of trustees which consists of two representatives from each county. One is appointed by the County Commissioners, the second from the board of the participating libraries. During 2015, Rock County did not contribute to the Plum Creek Library System.

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southern Prairie Community Care

As of February 4, 2014, the Southern Prairie Health Purchasing Alliance changed its name to Southern Prairie Community Care. Chippewa, Cottonwood, Jackson, Kandiyohi, Lincoln, Lyon, Murray, Nobles, Redwood, Rock, Swift, and Yellow Medicine Counties entered into a joint powers agreement on June 26, 2012, to establish the Southern Prairie Health Purchasing Alliance pursuant to the provisions of Minn. Stat. § 471.59. Southwest Health and Human Services represents Lincoln, Lyon, Murray, Redwood, and Rock Counties in this agreement. The purpose of the Alliance is to plan, formulate, operate, and govern a rural care delivery system to improve the health and quality of life of the citizens of member counties. The Joint Powers Board is composed of one representative from each county.

Southwest Minnesota Private Industry Council, Inc.

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

SW MN PIC is governed by the Chief Elected Official Board, which is composed of one representative from each member county. Rock County did not provide support to this organization in 2015.

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

Southwestern Mental Health Center, Inc.

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Mental Health Center, Inc. (Continued)

In 2015, Rock County paid \$375 to the Southwestern Mental Health Center, Inc., for mental health services. Complete financial statements for the Southwestern Mental Health Center, Inc., can be obtained at 216 E. Luverne Street, Luverne, Minnesota 56156.

Southwestern Minnesota Adult Mental Health Consortium Board

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

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

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained by contacting DVHHS at 11 Fourth Street, Windom, Minnesota 56101.

**ROCK COUNTY
LIVERNE, MINNESOTA**

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

C. Jointly-Governed Organizations

Region Five - Southwest Minnesota Homeland Security Emergency Management Organization

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

Kanaranzi-Little Rock Watershed District

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

Minnesota Counties Computer Cooperative (MCCC)

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

Minnesota Criminal Justice Data Communications Network

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The purpose of the Board is to provide policy guidance on issues surrounding energy development in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use. During 2015, Rock County paid \$1,000 to the Board.

Sentencing to Service

Rock County, in conjunction with other local governments, participates in the State of Minnesota's Sentencing to Service (STS) program. STS is a project of the State Department of Administration's Strive Toward Excellence in Performance (STEP) program. STEP's goal is a statewide effort to make positive improvements in public services. It gives the courts an alternative to jail or fines for the nonviolent offenders who can work on a variety of community or state projects. Private funding, funds from various foundations and initiative funds, as well as the Minnesota Departments of Corrections and Natural Resources, provide the funds needed to operate the STS program. Rock County has no operational or financial control over the STS program and does not budget for this program. In 2015, Rock County made no contributions to the program.

Southwest Minnesota Immunization Information Connection

The Southwest Minnesota Immunization Information Connection (SW-MIIC) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. The County did not contribute to the SW-MIIC during 2015.

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

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

Reporting Entity

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

Measurement Focus and Basis of Presentation

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

Deposits and Investments

The Rural Water District's cash is pooled and invested by the Rock County Auditor-Treasurer for the purpose of increasing earnings through investment activities. Investments are reported at fair value at December 31, 2015, based on market prices. Pooled investment earnings for 2015 were \$2,980.

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Deposits and Investments (Continued)

The Rural Water District invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The investment in the pool is measured at the net asset value per share provided by the pool.

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

Change in Accounting Principles

During the year ended December 31, 2015, the Rural Water District adopted new accounting guidance by implementing the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and changes the amount employers report as pension expense and defers some allocations of expenses to future years. As a result, beginning net position has been restated to record the Rural Water District's net pension liability and related deferred outflows of resources as follows.

	Rock County Rural Water District
Net Position, January 1, 2015, as previously reported	\$ 7,002,603
Change in accounting principles	
Net pension liability	(207,066)
Deferred outflows of resources	8,925
	\$ 6,804,462
Net Position, January 1, 2015, as restated	

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures (Continued)

B. Detailed Notes

1. Assets and Deferred Outflows of Resources

Deposits and Investments

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

Cash and pooled investments	\$ 879,433
Investments	451,808
Investments - restricted	<u>1,175,000</u>
Total Deposits and Investments	<u>\$ 2,506,241</u>

Petty cash and change funds	\$ 75
Checking	864,435
Savings	14,923
Certificates of deposit	<u>1,626,808</u>
Total Deposits and Investments	<u>\$ 2,506,241</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Rural Waters District's deposits may not be returned to it. Rock County's policy is to minimize deposit custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2015, the County's deposits were not exposed to custodial credit risk.

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

1. Assets and Deferred Outflows of Resources (Continued)

Receivables

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

1. Assets and Deferred Outflows of Resources (Continued)

Capital Assets

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

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

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

Depreciation expense for 2015 was \$223,738.

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes (Continued)

2. Liabilities and Deferred Inflows of Resources

Payables

Payables at December 31, 2015, were as follows:

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

Construction Commitments

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

Long-Term Debt

In 2000, the Rock County Rural Water District obtained financing through Rock County with the Minnesota Public Facilities Authority in the form of a General Obligation Revenue Bond debt of \$1,460,000 at 1.79 percent interest for 20 years and a grant of \$500,000. Additional financing was obtained during 2007 through Rock County with the Minnesota Public Facilities Authority in the form of a General Obligation Revenue Note of \$533,000 at 1.02 percent interest.

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

2. Liabilities and Deferred Inflows of Resources

Long-Term Debt (Continued)

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

Debt Service Requirements

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

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

2. Liabilities and Deferred Inflows of Resources (Continued)

Changes in Long-Term Liabilities

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

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

C. c

1. Plan Description

All full-time and certain part-time employees of the Rock County Rural Water District are covered by defined benefit pension plans administered by PERA. See Note 4.A. for information on PERA.

2. Contributions

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

C. Defined Benefit Pension Plans (Continued)

3. Pension Costs

At December 31, 2015, the Rural Water District reported a liability of \$212,691 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Rural Water District's proportion of the net pension liability was based on the Rural Water District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Rural Water District's proportion was 0.0041 percent. It was 0.0052 percent measured as of June 30, 2014. The Rural Water District recognized pension expense of \$24,702 for its proportionate share of the General Employees Retirement Fund's pension expense.

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures

C. Defined Benefit Pension Plans

3. Pension Costs (Continued)

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

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

4. Pension Liability Sensitivity

The following presents the Rural Water District's proportionate share of the net pension liability calculated using the discount rate of 7.9 percent, as well as what the Rural Water District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures (Continued)

D. Other Postemployment Benefits

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

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

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

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

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)
December 31, 2013	\$ 733	\$ 1,350	184.17%	\$ 600
December 31, 2014	727	1,764	242.64	(437)
December 31, 2015	3,675	4,280	116.48	(1,042)

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. Component Unit Disclosures (Continued)

E. Risk Management

The Rock County Rural Water District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the Rural Water District carries commercial insurance for property and casualty insurance. The Rural Water District is covered under Rock County's policy for workers' compensation with MCIT. For group health benefits, the Rural Water District is covered under the County's joint powers agreement with the Southwest/West Central Service Cooperative. For all other risk, the Rural Water District carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

F. Subsequent Events

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

REQUIRED SUPPLEMENTARY INFORMATION

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**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,797,098	\$ 2,797,098	\$ 3,468,516	\$ 671,418
Licenses and permits	5,400	5,400	20,460	15,060
Intergovernmental	502,606	502,606	846,967	344,361
Charges for services	1,301,662	1,301,662	1,333,020	31,358
Fines and forfeits	1,200	1,200	23,042	21,842
Gifts and contributions	-	-	1,873	1,873
Investment earnings	55,000	55,000	35,662	(19,338)
Miscellaneous	199,225	199,225	192,004	(7,221)
	<u>\$ 4,862,191</u>	<u>\$ 4,862,191</u>	<u>\$ 5,921,544</u>	<u>\$ 1,059,353</u>
Total Revenues				
Expenditures				
Current				
General government				
Commissioners	\$ 204,923	\$ 204,923	\$ 207,242	\$ (2,319)
District Court	-	-	21,922	(21,922)
Law library	-	-	20,692	(20,692)
County administration	157,134	157,134	168,054	(10,920)
Auditor-Treasurer	341,786	341,786	348,946	(7,160)
Elections	6,800	6,800	6,722	78
Accounting and auditing	45,000	45,000	51,446	(6,446)
Data processing	200,617	200,617	218,763	(18,146)
Attorney	186,991	186,991	186,012	979
Land records	387,184	387,184	372,993	14,191
Recorder's technology	23,500	23,500	40,874	(17,374)
Buildings and plant	296,357	296,357	413,206	(116,849)
Veterans service officer	30,529	30,529	36,949	(6,420)
Transportation	335,100	335,100	458,568	(123,468)
Heartland building	-	-	13,797	(13,797)
Veterans museum	-	-	3,729	(3,729)
Equipment	-	-	489,457	(489,457)
Other general government	21,190	21,190	11,955	9,235
	<u>\$ 2,237,111</u>	<u>\$ 2,237,111</u>	<u>\$ 3,071,327</u>	<u>\$ (834,216)</u>
Total general government	\$ 2,237,111	\$ 2,237,111	\$ 3,071,327	\$ (834,216)

**ROCK COUNTY
LIVERNE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,722,315	\$ 1,722,315	\$ 1,805,469	\$ (83,154)
Coroner	10,000	10,000	1,825	8,175
Forefeitures	-	-	8,321	(8,321)
Gun permits	-	-	3,146	(3,146)
E-911 system	-	-	30,720	(30,720)
Prisoner care	78,000	78,000	85,212	(7,212)
Emergency services	43,527	43,527	39,338	4,189
Total public safety	\$ 1,853,842	\$ 1,853,842	\$ 1,974,031	\$ (120,189)
Health				
Community health	\$ 16,800	\$ 16,800	\$ 16,800	\$ -
Culture and recreation				
Historical society	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Minnesota trails	-	-	23,361	(23,361)
Senior citizens	26,204	26,204	20,616	5,588
Library	280,797	280,797	298,333	(17,536)
Heritage museum	65,909	65,909	51,147	14,762
Library donations	-	-	15,667	(15,667)
Children's library books	-	-	4,693	(4,693)
Other	5,920	5,920	8,020	(2,100)
Total culture and recreation	\$ 388,830	\$ 388,830	\$ 431,837	\$ (43,007)
Conservation of natural resources				
Extension	\$ 126,283	\$ 126,283	\$ 118,310	\$ 7,973
Agricultural society	16,000	16,000	16,000	-
Total conservation of natural resources	\$ 142,283	\$ 142,283	\$ 134,310	\$ 7,973
Economic development				
Tourism	\$ 1,940	\$ 1,940	\$ 500	\$ 1,440

**ROCK COUNTY
LUVERNE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Intergovernmental				
Community Corrections	\$ 89,742	\$ 89,742	\$ 89,742	\$ -
Health	70,231	70,231	70,231	-
Total intergovernmental	\$ 159,973	\$ 159,973	\$ 159,973	\$ -
Capital outlay				
General government	\$ -	\$ -	\$ 137,820	\$ (137,820)
Debt Service				
Principal	\$ -	\$ -	\$ 28,098	\$ (28,098)
Interest	-	-	1,582	(1,582)
Bond issuance costs	-	-	45,752	(45,752)
Total debt service	\$ -	\$ -	\$ 75,432	\$ (75,432)
Total Expenditures	\$ 4,800,779	\$ 4,800,779	\$ 6,002,030	\$ (1,201,251)
Excess of Revenues Over (Under)				
Expenditures	\$ 61,412	\$ 61,412	\$ (80,486)	\$ (141,898)
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (2,252,828)	\$ (2,252,828)
Bonds issued	-	-	1,190,000	1,190,000
Premium on bonds issued	-	-	32,550	32,550
Capital leases	-	-	75,753	75,753
Proceeds from the sale of capital assets	5,000	5,000	4,902	(98)
Total Other Financing Sources (Uses)	\$ 5,000	\$ 5,000	\$ (949,623)	\$ (954,623)
Net Change in Fund Balance	\$ 66,412	\$ 66,412	\$ (1,030,109)	\$ (1,096,521)
Fund Balance - January 1	7,036,427	7,036,427	7,036,427	-
Fund Balance - December 31	\$ 7,102,839	\$ 7,102,839	\$ 6,006,318	\$ (1,096,521)

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
PUBLIC WORKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,022,161	\$ 1,022,161	\$ 788,475	\$ (233,686)
Intergovernmental	1,196,759	1,196,759	5,385,017	4,188,258
Charges for services	438,100	438,100	620,600	182,500
Investment earnings	10,000	10,000	4,709	(5,291)
Miscellaneous	6,500	6,500	99,058	92,558
Total Revenues	\$ 2,673,520	\$ 2,673,520	\$ 6,897,859	\$ 4,224,339
Expenditures				
Current				
Highways and streets				
Administration	\$ 232,686	\$ 232,686	\$ 206,099	\$ 26,587
Maintenance	1,163,583	1,163,583	1,570,827	(407,244)
Construction	255,833	255,833	5,986,321	(5,730,488)
Equipment and maintenance shops	554,461	554,461	530,118	24,343
Material and services for resale	25,547	25,547	59,973	(34,426)
Other	104,710	104,710	81,997	22,713
Total highways and streets	\$ 2,336,820	\$ 2,336,820	\$ 8,435,335	\$ (6,098,515)
Sanitation				
Solid waste	416,700	416,700	523,997	(107,297)
Intergovernmental				
Highways and streets	-	-	299,954	(299,954)
Total Expenditures	\$ 2,753,520	\$ 2,753,520	\$ 9,259,286	\$ (6,505,766)
Excess of Revenues Over (Under)				
Expenditures	\$ (80,000)	\$ (80,000)	\$ (2,361,427)	\$ (2,281,427)
Other Financing Sources (Uses)				
Transfers in	\$ 80,000	\$ 80,000	\$ 1,837,866	\$ (1,757,866)
Proceeds from the sale of capital assets	-	-	3,099	(3,099)
Total Other Financing Sources (Uses)	\$ 80,000	\$ 80,000	\$ 1,840,965	\$ (1,760,965)

**ROCK COUNTY
LIVERNE, MINNESOTA**

*EXHIBIT A-2
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
PUBLIC WORKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Net Change in Fund Balance	\$ -	\$ -	\$ (520,462)	\$ (4,042,392)
Fund Balance - January 1	(3,833)	(3,833)	(3,833)	-
Increase (decrease) in inventories	-	-	(13,714)	(13,714)
Fund Balance - December 31	<u>\$ (3,833)</u>	<u>\$ (3,833)</u>	<u>\$ (538,009)</u>	<u>\$ (4,056,106)</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,104,112	\$ 1,104,112	\$ 1,062,642	\$ (41,470)
Intergovernmental	<u>36,351</u>	<u>36,351</u>	<u>76,414</u>	<u>40,063</u>
Total Revenues	<u>\$ 1,140,463</u>	<u>\$ 1,140,463</u>	<u>\$ 1,139,056</u>	<u>\$ (1,407)</u>
Expenditures				
Current				
General government	\$ -	\$ -	\$ 6,533	\$ (6,533)
Intergovernmental				
Human Services	<u>1,140,463</u>	<u>1,140,463</u>	<u>1,140,463</u>	<u>-</u>
Total Expenditures	<u>\$ 1,140,463</u>	<u>\$ 1,140,463</u>	<u>\$ 1,146,996</u>	<u>\$ (6,533)</u>
Net Change in Fund Balance	\$ -	\$ -	\$ (7,940)	\$ (7,940)
Fund Balance - January 1	<u>103,796</u>	<u>103,796</u>	<u>103,796</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 103,796</u>	<u>\$ 103,796</u>	<u>\$ 95,856</u>	<u>\$ (7,940)</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
LAND MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 25,943	\$ 25,943	\$ 22,469	\$ (3,474)
Special assessments	209,306	209,306	216,497	7,191
Licenses and permits	39,099	39,099	56,539	17,440
Intergovernmental	171,855	171,855	221,091	49,236
Charges for services	2,975	2,975	3,402	427
Investment earnings	-	-	38	38
Miscellaneous	14,288	14,288	3,180	(11,108)
Total Revenues	\$ 463,466	\$ 463,466	\$ 523,216	\$ 59,750
Expenditures				
Current				
General government				
Planning and zoning	\$ 43,017	\$ 43,017	\$ 53,952	\$ (10,935)
Sanitation				
Recycling	\$ 120,487	\$ 120,487	\$ 119,524	\$ 963
Hazardous waste	28,639	28,639	22,064	6,575
Environmental office	181,594	181,594	178,094	3,500
Other	-	-	4,460	(4,460)
Total sanitation	\$ 330,720	\$ 330,720	\$ 324,142	\$ 6,578
Conservation of natural resources				
Agricultural inspection	\$ 11,015	\$ 11,015	\$ 9,787	\$ 1,228
Water planning	170,876	170,876	209,653	(38,777)
Total conservation of natural resources	\$ 181,891	\$ 181,891	\$ 219,440	\$ (37,549)
Debt service				
Principal	\$ -	\$ -	\$ 15,281	\$ (15,281)
Interest	-	-	2,726	(2,726)
Total debt service	\$ -	\$ -	\$ 18,007	\$ (18,007)
Total Expenditures	\$ 555,628	\$ 555,628	\$ 615,541	\$ (59,913)

**ROCK COUNTY
LUVERNE, MINNESOTA**

**EXHIBIT A-4
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
LAND MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under)				
Expenditures	<u>\$ (92,162)</u>	<u>\$ (92,162)</u>	<u>\$ (92,325)</u>	<u>\$ (163)</u>
Other Financing Sources (Uses)				
Transfers out	\$ (80,000)	\$ (80,000)	\$ -	\$ 80,000
Loans issued	<u>-</u>	<u>-</u>	<u>35,183</u>	<u>35,183</u>
Total Other Financing Sources (Uses)	<u>\$ (80,000)</u>	<u>\$ (80,000)</u>	<u>\$ 35,183</u>	<u>\$ 115,183</u>
Net Change in Fund Balance	<u>\$ (172,162)</u>	<u>\$ (172,162)</u>	<u>\$ (57,142)</u>	<u>\$ 115,020</u>
Fund Balance - January 1	<u>843,648</u>	<u>843,648</u>	<u>843,648</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 671,486</u></u>	<u><u>\$ 671,486</u></u>	<u><u>\$ 786,506</u></u>	<u><u>\$ 115,020</u></u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT A-5

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 94,040	\$ 94,040	\$ 74,907	\$ (19,133)
Expenditures				
Debt service				
Principal	\$ 70,000	\$ 70,000	\$ 70,000	\$ -
Interest	24,040	24,040	15,638	8,402
Administrative (fiscal) charges	-	-	495	(495)
Total Expenditures	\$ 94,040	\$ 94,040	\$ 86,133	\$ 7,907
Net Change in Fund Balance	\$ -	\$ -	\$ (11,226)	\$ (11,226)
Fund Balance - January 1	289,282	289,282	289,282	-
Fund Balance - December 31	\$ 289,282	\$ 289,282	\$ 278,056	\$ (11,226)

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-6

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2009	\$ -	\$ 513,365	\$ 513,365	0.00%	\$ 3,800,699	13.51%
January 1, 2012	-	399,473	399,473	0.00%	3,636,645	10.98%
January 1, 2015	-	309,815	309,815	0.00%	3,420,059	9.06%

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-7

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0472%	\$ 2,445,941	\$ 2,821,447	86.69%	78.19%

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-8

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 215,092	\$ 215,092	-	\$ 2,867,883	7.50%

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT A-9

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND
DECEMBER 31, 2015**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.085%	\$ 965,799	\$ 778,164	124.11%	86.61%

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT A-10

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND
DECEMBER 31, 2015**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 133,086	\$ 133,086	-	\$ 821,517	16.20%

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

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

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

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

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Budget	Excess
General Fund	\$ 6,002,030	\$ 4,800,779	\$ 1,201,251
Special Revenue Funds			
Public Works	9,259,286	2,753,520	6,505,766
Family Services	1,146,996	1,140,463	6,533
Land Management	615,541	555,628	59,913

**ROCK COUNTY
LUVERNE, MINNESOTA**

5. Other Postemployment Benefits - Funding Status

Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the actuarial accrued liability for postemployment benefits is zero. See Note 4.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

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

2012

The County obtained an actuarial valuation as of January 1, 2012. Since the actuarial valuation as of January 1, 2009, the following actuarial assumptions have changed:

Actuarial Assumptions

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

2015

The County obtained an actuarial valuation as of January 1, 2015. Since the actuarial valuation as of January 1, 2012, the following actuarial assumptions and plan provisions have changed:

Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases. At the time the valuation was completed, the actual 2015 medical cost increase was available. The actual 2015 increase of 14.9 percent has been taken into account in the valuation.

**ROCK COUNTY
LUVERNE, MINNESOTA**

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

2015

Actuarial Assumptions (Continued)

- The mortality table was updated from the projection of RP 2000 rates to 2012 (with Blue Collar adjustment for Police and Fire Personnel) to the RP-2014 White Collar Mortality Table with MP-2015 Generational Improvement Scale (Blue Collar Tables for Police and Fire Personnel).
- The discount rate was changed from 4.5 percent to 4.0 percent.

Plan Provisions

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

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SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 766,193	\$ 766,193	\$ 318,708	\$ (447,485)
Intergovernmental	10,897	10,897	22,908	12,011
Investment earnings	-	-	1,274	1,274
Total Revenues	\$ 777,090	\$ 777,090	\$ 342,890	\$ (434,200)
Expenditures				
Debt service				
Principal	\$ 591,895	\$ 591,895	\$ 591,895	\$ -
Interest	185,195	185,195	147,816	37,379
Administrative (fiscal) charges	-	-	931	(931)
Total Expenditures	\$ 777,090	\$ 777,090	\$ 740,642	\$ 36,448
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (397,752)	\$ (397,752)
Other Financing Sources (Uses)				
Transfers in	-	-	414,962	414,962
Net Change in Fund Balance	\$ -	\$ -	\$ 17,210	\$ 17,210
Fund Balance - January 1	370,737	370,737	370,737	-
Fund Balance - December 31	\$ 370,737	\$ 370,737	\$ 387,947	\$ 17,210

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**ROCK COUNTY
LUVERNE, MINNESOTA**

AGENCY FUNDS

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

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

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

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

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**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ROCK NOBLES COMMUNITY CORRECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 238,264	\$ 808,547	\$ 794,538	\$ 252,273
<u>Liabilities</u>				
Salaries payable	\$ 30,311	\$ 10,850	\$ 30,311	\$ 10,850
Due to other governments	207,953	797,697	764,227	241,423
Total Liabilities	\$ 238,264	\$ 808,547	\$ 794,538	\$ 252,273
 <u>BIG BUDDIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,532	\$ 8,300	\$ 9,787	\$ 45
<u>Liabilities</u>				
Due to other governments	\$ 1,532	\$ 8,300	\$ 9,787	\$ 45
 <u>ROCK YOUTH FELLOWSHIP</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 528	\$ 5,061	\$ 5,208	\$ 381
<u>Liabilities</u>				
Due to other governments	\$ 528	\$ 5,061	\$ 5,208	\$ 381

**ROCK COUNTY
LIVERNE, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 181,152</u>	<u>\$ 14,890,347</u>	<u>\$ 14,905,370</u>	<u>\$ 166,129</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 181,152</u>	<u>\$ 14,890,347</u>	<u>\$ 14,905,370</u>	<u>\$ 166,129</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 421,476</u>	<u>\$ 15,712,255</u>	<u>\$ 15,714,903</u>	<u>\$ 418,828</u>
<u>Liabilities</u>				
Salaries payable	\$ 30,311	\$ 10,850	\$ 30,311	\$ 10,850
Due to other governments	<u>391,165</u>	<u>15,701,405</u>	<u>15,684,592</u>	<u>407,978</u>
Total Liabilities	<u>\$ 421,476</u>	<u>\$ 15,712,255</u>	<u>\$ 15,714,903</u>	<u>\$ 418,828</u>

OTHER SCHEDULE

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**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2015**

Appropriations and Shared Revenue

State

Highway users tax	\$	4,187,370
Market value credit		174,949
PERA rate reimbursement		14,476
Disparity reduction aid		6,813
County program aid		164,918
Police aid		87,732
Enhanced 911		80,798
Select Committee on Recycling and the Environment (SCORE)		69,692

Total appropriations and shared revenue **\$ 4,786,748**

Payments

Local

Payments in lieu of taxes	\$	33,091
Local contributions		157,170

Total payments **\$ 190,261**

Grants

State

Minnesota Department/Board of Natural Resources	\$	23,361
Public Safety		92,396
Transportation		779,770
Water and Soil Resources		128,048
Veterans Affairs		7,500
Minnesota Historical Society		9,285

Total state **\$ 1,040,360**

Federal

Department of Transportation	\$	368,373
Homeland Security		166,655

Total federal **\$ 535,028**

Total state and federal grants **\$ 1,575,388**

Total Intergovernmental Revenue **\$ 6,552,397**

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**ROCK COUNTY
LIVERNE, MINNESOTA**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2014-001

Audit Adjustments

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

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

Context: The inability to detect misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. Independent external auditors cannot be considered part of Rock County's internal control.

Effect: The following audit adjustments were necessary:

General Fund

- increased fund balance and increased other financing uses--transfers out by \$414,962 to properly record the interfund transfer to the Debt Service Fund.

Debt Service Fund

- decreased fund balance and increased other financing sources--transfers in by \$414,962 to properly record the interfund transfer from the General Fund.

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

Cause: The County did not use the proper method to record transfers between funds.

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

Client's Response:

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

PREVIOUSLY REPORTED ITEMS RESOLVED

Segregation of Duties (2005-001)

Several of the County's departments that collect fees lacked proper segregation of duties. These departments generally had one staff person responsible for billing, collecting, recording, and depositing receipts.

Resolution

Rock County departments implemented additional monitoring and review procedures to improve segregation of duties and increase controls over billing, collecting, recording, and depositing receipts.

Network/Application Password Controls (2011-001)

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

Resolution

Rock County management completed updates and reviewed password controls that limit access to the IFS application to ensure they are appropriate to protect the County's data.

Approval of Disbursements (2014-002)

During our testing of internal control over the County's general disbursements, we noted the County's disbursement process was not requiring itemized invoices for all expenditures before making authorized payments to vendors.

Resolution

During the current audit, a sample of 25 disbursements was tested. We noted the County obtained itemized invoices before authorizing payment. In addition, before vendor claims were paid, the corresponding invoice was reviewed, and initialed and dated as approved for payment by an authorized individual.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2014-005

Publication of County Board Minutes

Criteria: Under Minn. Stat. § 375.12 states that within 30 days of each meeting, the county board must have the official proceedings of its sessions or a summary published in a qualified newspaper of general circulation in the county.

Condition: We reviewed the affidavits of publication related to publishing of the County Board minutes for 2015 and found that the minutes were not published in the County's official newspaper within the 30-day requirement.

Context: Of the seven published minutes reviewed, none were published within the 30-day requirement.

Effect: Noncompliance with Minn. Stat. § 375.12.

Cause: The County experienced timing difficulties in obtaining County Board approval for meeting minutes and submitting publication requests to the newspaper before their deadline. County Board meetings are held on Tuesdays, and the newspaper's deadline for submitting publication requests is Tuesday at noon.

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

Client's Response:

Rock County will work with the local newspaper staff to bring the publication requirement into compliance with statute.

PREVIOUSLY REPORTED ITEMS RESOLVED

Withholding Affidavit for Contractors (Form IC-134) (2014-003)

Rock County made final payment to contractors for contracts involving the employment of individuals for wages before receiving a completed Form IC-134 from the Minnesota Department of Revenue. Form IC-134 certifies that the contractor or subcontractor had complied with the withholding requirements of Minn. Stat. § 290.92.

Resolution

During contract testing for the current audit, we noted Rock County's processes for payments to contractors now include obtaining the Form IC-134 prior to making final payment.

Publication of County Financial Statements (2014-004)

Rock County did not publish financial statements in a duly qualified newspaper in the County as required by Minn. Stat. § 375.17.

Resolution

Rock County published the 2014 financial statements in a duly qualified newspaper in the County as required by Minn. Stat. § 375.17, in the form prescribed by the State Auditor.



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*

Independent Auditor's Report

Board of County Commissioners
Rock County
Luverne, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 14, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

Rock County's Response to Findings

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 14, 2016

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR