

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

ROCK COUNTY
LUVERNE, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**ROCK COUNTY
LIVERNE, MINNESOTA**

For the Year Ended December 31, 2006



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

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**ROCK COUNTY
LUVERNE, MINNESOTA**

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**ROCK COUNTY
LUVERNE, MINNESOTA**

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**ROCK COUNTY
LIVERNE, MINNESOTA**

ORGANIZATION SCHEDULE
2006

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1st District	Kenneth Hoime	January 2009
2nd District	Richard Bakken**	January 2007
3rd District	Ronald Boyenga	January 2009
4th District	Robert Jarchow	January 2007
5th District	Jane Wildung*	January 2009
Officers		
Elected		
Attorney	Donald R. Klosterbuer	January 2007
Auditor/Treasurer	Gloria Rolfs	January 2007
Sheriff	Mike Winkels	January 2007
Appointed		
Assessor	Thomas Houselog	Indefinite
Highway Engineer	Mark Sehr	Indefinite
County Administrator	Kyle J. Oldre	Indefinite
Family Services Director	Randy Ehlers	Indefinite
County Recorder	Thomas Houselog	Indefinite

*Chair 2006

**Chair 2007

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Rock County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Rock County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Rock County Rural Water District, which represents the amounts shown as the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed here, insofar as it relates to amounts included for the Rock County Rural Water District component unit, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County as of December 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2007, on our consideration of Rock County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 13, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**ROCK COUNTY
LIVERNE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006
(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, 2006. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$43,281,427, of which \$35,892,187 is invested in capital assets, net of related debt, and \$876,164 is restricted to specific purposes. The \$6,513,076 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net assets increased by \$1,546,043 for the year ended December 31, 2006. A large part of the increase is attributable to increases in capital assets funded by capital grants.
- The net cost of governmental activities for the current fiscal year was \$3,325,306. General revenues and other items totaling \$4,871,349 funded the net cost.
- The fund balances of the governmental funds decreased by \$1,687,197. Most of the decrease was due to bond proceeds being spent for the construction of the new Law Enforcement Center.
- For the year ended December 31, 2006, the unreserved fund balance of the General Fund was \$2,938,677, or 67.6 percent, of the total General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government and discretely presented 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.

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

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

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

Fund Financial Statements

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term

financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$43,281,427 at the close of 2006. The largest portion of the net assets (82.9 percent) reflects its investment in capital assets, less any related outstanding debt used to acquire those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Table 1
Net Assets

	Governmental Activities	
	2006	2005 (Restated)
Assets		
Current and other assets	\$ 9,273,493	\$ 10,012,495
Capital and noncurrent assets	38,079,748	35,216,804
Total Assets	<u>\$ 47,353,241</u>	<u>\$ 45,229,299</u>
Liabilities		
Long-term liabilities	\$ 2,672,740	\$ 2,666,267
Current liabilities	1,399,074	827,648
Total Liabilities	<u>\$ 4,071,814</u>	<u>\$ 3,493,915</u>

	Governmental Activities	
	2006	2005 (Restated)
Net Assets		
Invested in capital assets, net of related debt	\$ 35,892,187	\$ 34,663,911
Restricted	876,164	900,966
Unrestricted	6,513,076	6,170,507
Total Net Assets	\$ 43,281,427	\$ 41,735,384

Unrestricted net assets--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--are 15 percent of the net assets.

Governmental Activities

The County's governmental activities increased net assets by 3.7 percent (\$43,281,427 for 2006 compared to \$41,735,384 for 2005). Key elements in this increase in net assets are as follows:

Table 2
Changes in Net Assets

	Governmental Activities	
	2006	2005 (Restated)
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 2,038,158	\$ 1,565,301
Operating grants and contributions	4,463,712	3,576,352
Capital grants and contributions	1,842,408	4,086,232
General revenues		
Property taxes	2,941,385	2,916,369
Unrestricted state aid	1,402,784	1,389,546
Investment earnings	364,186	153,272
Other	162,994	246,643
Total Revenues	\$ 13,215,627	\$ 13,933,715
Expenses		
General government	\$ 2,070,566	\$ 1,601,189
Public safety	1,741,685	1,665,435
Highways and streets	4,320,989	2,835,481
Sanitation	476,333	452,783
Human services	2,371,170	2,548,834
Health	108,703	75,370
Culture and recreation	211,061	464,247
Conservation of natural resources	262,345	229,716
Economic development	1,900	-
Interest	104,832	35,780
Total Expenses	\$ 11,669,584	\$ 9,908,835
Change in Net Assets - Increase	\$ 1,546,043	\$ 4,024,880
Net Assets - January 1, Restated	41,735,384	37,710,504
Net Assets - December 31	\$ 43,281,427	\$ 41,735,384

(Unaudited)

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FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$6,875,649, a decrease of \$1,687,197 in comparison with the prior year as restated. Of the combined ending fund balances, \$6,055,871 represents unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law, grant agreements, or bond covenants.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unreserved fund balance of \$2,938,677. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund unreserved fund balance represents 67.6 percent of total General Fund expenditures. During 2006, the fund balance increased by \$424,383. The primary reason for this increase was due to less than anticipated costs in several departments, an increase in investment earnings, and insurance dividends.

The Public Works Special Revenue Fund had an unreserved fund balance of \$1,005,395 at fiscal year-end, representing 18.2 percent of its annual expenditures. The ending fund balance decreased \$513,934 during 2006, primarily due to highway project reimbursements receivable not being received soon enough after year-end to be reported as revenues in 2006. Also, in 2006 the Public Works Special Revenue Fund received an advance from the General Fund to help with current operating costs.

The Family Services Special Revenue Fund had an unreserved fund balance of \$1,306,365 at fiscal year-end, representing 56.0 percent of its annual expenditures. The ending fund balance increased \$182,028 during 2006, primarily due to lower than anticipated social service costs.

The Ditch Special Revenue Fund had an unreserved fund balance of \$21,966 at fiscal year-end. The ending fund balance decreased \$193 during 2006 primarily due to the ditches needing more maintenance.

The Land Management Special Revenue Fund has an unreserved fund balance of \$875,830 at fiscal year-end. The ending fund balance increased \$85,759 during 2006, primarily due to less spending in sanitation costs and increases in permit fees.

Governmental Activities

The County's total revenues were \$13,215,627. Table 3 presents the percent of total County revenues by source for the year ended December 31, 2006.

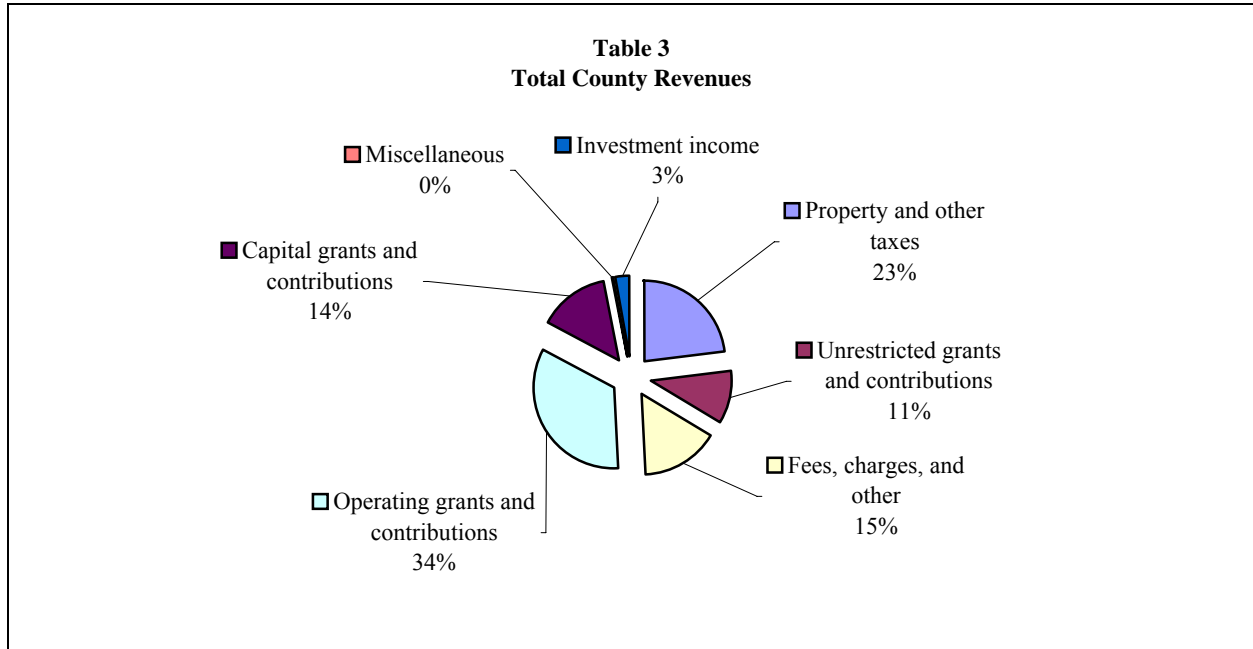
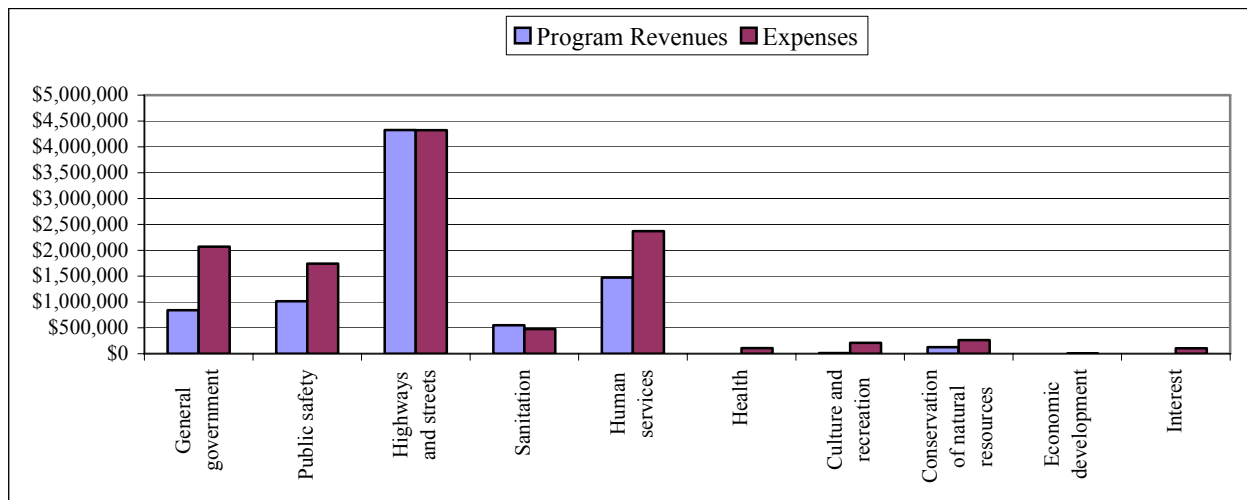


Table 4 presents the cost and revenue of each program as well as the County's program revenues. Total revenues for the County were \$13,215,627, while total expenses were \$11,669,584. This reflects a \$1,546,043 increase in net assets for the year ended December 31, 2006.

**Table 4
Expenses and Program Revenues - 2006**



(Unaudited)

The cost of all governmental activities this year was \$11,669,584. 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 \$2,941,385 because some of the costs were paid by those who directly benefited from the programs (\$2,038,158) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,306,120). The County paid for the remaining “public benefit” portion of governmental activities with \$4,871,349 of general revenues, primarily taxes (some of which could only be used for certain programs) and other revenues, such as grants and contributions not restricted to specific programs and interest.

Table 5 presents the cost of each of the County’s four largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activity). The net cost shows the financial burden placed on the County’s taxpayers by each of these functions.

**Table 5
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Highways and streets	\$ 4,320,989	\$ 2,835,481	\$ (4,445)	\$ (2,023,287)
Human services	2,371,170	2,548,834	897,348	929,766
General government	2,070,566	1,601,189	1,230,250	1,221,348
Public safety	1,741,685	1,665,435	726,100	856,003
All others	1,165,174	1,257,896	476,053	562,177
Totals	<u>\$ 11,669,584</u>	<u>\$ 9,908,835</u>	<u>\$ 3,325,306</u>	<u>\$ 1,546,007</u>

General Fund Budgetary Highlights

No differences between the original General Fund expenditure budget and final amended budget were experienced in 2006.

Actual General Fund revenues exceeded budgeted revenues by \$479,750, primarily due to a greater than expected return on investments and increased grants and other intergovernmental aid.

Actual expenditures were less than budgeted expenditures by \$14,605.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2006, totaled \$38,079,748 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$2,862,944 or 8.1 percent from the previous year. The major capital asset events were:

- \$1,762,678 Construction of Law Enforcement Center
- 1,816,821 Construction of highways and streets
- 489,959 Purchase of machinery and equipment

Table 6
Capital Assets at Year-End
Net of Depreciation

	2006	2005
Land	\$ 1,177,845	\$ 1,158,320
Construction in progress	1,886,095	123,417
Infrastructure	29,880,429	28,838,539
Buildings	2,147,207	2,216,501
Machinery, equipment, and vehicles	2,988,172	2,880,027
Total	\$ 38,079,748	\$ 35,216,804

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

Long-Term Debt

At the end of the current fiscal year, the County had total net outstanding debt of \$2,672,740, which was backed by the full faith and credit of the government.

Table 7
Outstanding Debt

	2006	2005
General obligation bonds	\$ 1,841,161	\$ 1,959,630
Capital leases	317,561	372,578
Compensated absences payable	514,018	465,944
Total	\$ 2,672,740	\$ 2,798,152

The County's debt related to general obligation bonds decreased by \$118,469 (6.0 percent) during the fiscal year.

Minnesota statutes limit the amount of debt a county may levy to two percent of its total market value. At the end of 2006, the County's outstanding debt was 0.26 percent of its total estimated market value.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The unemployment rate for Rock County at the end of 2006 was 2.9 percent. This compares favorably with the state unemployment rate of 4.2 percent and also shows a decrease from the 3.0 percent rate of one year ago.

On December 12, 2006, the Rock County Board of Commissioners approved the 2007 budget and adopted a property tax levy of \$3,481,138, which represents a 3.94 percent increase over the 2006 property tax levy of \$3,349,095.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 3,524,410	\$ 40,907
Investments	3,341,367	762,172
Investments - restricted	-	1,163,245
Receivables - net	2,220,652	13,886
Receivables - restricted	-	641,678
Inventories	166,674	79,245
Prepaid items	-	7,301
Deferred debt issuance costs	20,390	-
Capital assets		
Non-depreciable capital assets	3,063,940	184,216
Depreciable capital assets - net of accumulated depreciation	35,015,808	4,007,221
Total Assets	\$ 47,353,241	\$ 6,899,871
<u>Liabilities</u>		
Accounts payable and other current liabilities	\$ 1,353,787	\$ 70,924
Accrued interest payable	35,268	6,981
Customer deposits - current	10,019	-
Long-term liabilities		
Due within one year	151,996	72,000
Due in more than one year	2,520,744	968,000
Total Liabilities	\$ 4,071,814	\$ 1,117,905
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 35,892,187	\$ 3,144,456
Restricted for		
Highways and streets	776,206	-
Public safety	47,647	-
Other purposes	52,311	-
Unrestricted	6,513,076	2,637,510
Total Net Assets	\$ 43,281,427	\$ 5,781,966

**ROCK COUNTY
LIVERNE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 2,070,566	\$ 435,512
Public safety	1,741,685	748,628
Highways and streets	4,320,989	99,626
Sanitation	476,333	500,150
Human services	2,371,170	209,039
Health	108,703	-
Culture and recreation	211,061	-
Conservation of natural resources	262,345	45,203
Economic development	1,900	-
Interest	104,832	-
	\$ 11,669,584	\$ 2,038,158
Total governmental activities		
Component Unit		
Rock County Rural Water District	\$ 624,667	\$ 582,525

General Revenues

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

Total general revenues

Change in Net Assets

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

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Discretely Presented Component Unit
\$ 404,804	\$ -	\$ (1,230,250)	
164,762	102,195	(726,100)	
2,485,595	1,740,213	4,445	
49,079	-	72,896	
1,264,783	-	(897,348)	
-	-	(108,703)	
12,836	-	(198,225)	
81,853	-	(135,289)	
-	-	(1,900)	
-	-	(104,832)	
\$ 4,463,712	\$ 1,842,408	\$ (3,325,306)	
\$ 39,550	\$ 201,109		\$ 198,517
		\$ 2,941,385	\$ -
		34,881	-
		24,959	-
		47,400	-
		1,402,784	-
		364,186	27,314
		55,754	-
		\$ 4,871,349	\$ 27,314
		\$ 1,546,043	\$ 225,831
		41,735,384	5,556,135
		\$ 43,281,427	\$ 5,781,966

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**ROCK COUNTY
LUVERNE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	General	Public Works	Family Services
<u>Assets</u>			
Cash and pooled investments	\$ 1,167,226	\$ 183,162	\$ 1,238,596
Petty cash and change funds	1,275	75	-
Investments	1,978,350	1,110,000	-
Taxes receivable			
Prior	19,442	5,760	8,247
Special assessments receivable			
Prior	-	-	-
Accounts receivable	13,679	34,987	42,842
Accrued interest receivable	48,285	22,389	-
Advance to other funds	400,000	-	-
Loans receivable - net	44,000	-	-
Due from other funds	9,141	-	-
Due from other governments	47,417	1,796,023	128,692
Inventories	-	166,674	-
	\$ 3,728,815	\$ 3,319,070	\$ 1,418,377

EXHIBIT 3

<u>Land Management</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
\$ 880,817	\$ 31,985	\$ 16,557	\$ 4,717	\$ 3,523,060
-	-	-	-	1,350
-	-	-	253,017	3,341,367
197	-	408	-	34,054
6,862	-	-	-	6,862
-	-	-	-	91,508
-	-	-	1,422	72,096
-	-	-	-	400,000
-	-	-	-	44,000
-	-	-	-	9,141
-	-	-	-	1,972,132
-	-	-	-	166,674
<u>\$ 887,876</u>	<u>\$ 31,985</u>	<u>\$ 16,965</u>	<u>\$ 259,156</u>	<u>\$ 9,662,244</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	General	Public Works	Family Services
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 32,283	\$ 26,024	\$ 71,761
Salaries payable	34,260	11,783	18,246
Contracts payable	85,260	628,461	-
Due to other funds	-	393	8,481
Due to other governments	45,067	26,498	5,277
Deferred revenue - unavailable	38,009	959,925	8,247
Customer deposits	-	-	-
Advance from other funds	-	400,000	-
	\$ 234,879	\$ 2,053,084	\$ 112,012
Fund Balances			
Reserved for			
Inventories	\$ -	\$ 166,674	\$ -
Encumbrances	-	35,450	-
Advance to other funds	400,000	-	-
Loans receivable	44,000	-	-
Missing heirs	4,119	-	-
Law library	2,708	-	-
Recorder's technology fund	4,594	-	-
Recorder's compliance fund	38,456	-	-
Enhanced 911	25,212	-	-
Sheriff's contingency	8,123	-	-
Sheriff's forfeited property	14,312	-	-
Transportation	11,301	-	-
Highway allotments	-	58,467	-
Election equipment grant	2,434	-	-
Unreserved			
Designated for future expenditures	1,246,084	-	240,000
Designated for cash flows	1,415,988	-	772,149
Designated for compensated absences	235,340	150,035	116,293
Designated for capital equipment	-	500,000	-
Designated for debt service	-	-	-
Undesignated	41,265	355,360	177,923
	\$ 3,493,936	\$ 1,265,986	\$ 1,306,365
Total Fund Balances	\$ 3,493,936	\$ 1,265,986	\$ 1,306,365
Total Liabilities and Fund Balances	\$ 3,728,815	\$ 3,319,070	\$ 1,418,377

EXHIBIT 3
(Continued)

<u>Land Management</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
\$ 372	\$ -	\$ -	\$ -	\$ 130,440
4,348	-	-	-	68,637
-	-	-	364,147	1,077,868
267	-	-	-	9,141
-	-	-	-	76,842
7,059	-	408	-	1,013,648
-	10,019	-	-	10,019
-	-	-	-	400,000
\$ 12,046	\$ 10,019	\$ 408	\$ 364,147	\$ 2,786,595
\$ -	\$ -	\$ -	\$ -	\$ 166,674
-	-	-	3,928	39,378
-	-	-	-	400,000
-	-	-	-	44,000
-	-	-	-	4,119
-	-	-	-	2,708
-	-	-	-	4,594
-	-	-	-	38,456
-	-	-	-	25,212
-	-	-	-	8,123
-	-	-	-	14,312
-	-	-	-	11,301
-	-	-	-	58,467
-	-	-	-	2,434
602,999	21,966	-	-	2,111,049
177,521	-	-	-	2,365,658
12,350	-	-	-	514,018
-	-	-	-	500,000
-	-	16,557	-	16,557
82,960	-	-	(108,919)	548,589
\$ 875,830	\$ 21,966	\$ 16,557	\$ (104,991)	\$ 6,875,649
\$ 887,876	\$ 31,985	\$ 16,965	\$ 259,156	\$ 9,662,244

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**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Fund balances - total governmental funds (Exhibit 3)	\$	6,875,649
Amounts reported for governmental activities in the statement of net assets 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.		38,079,748
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,013,648
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (1,870,000)	
Unamortized bond discount	28,839	
Deferred debt issuance costs	20,390	
Capital leases payable	(317,561)	
Compensated absences	(514,018)	
Accrued interest payable	(35,268)	
	(2,687,618)	(2,687,618)
Net assets of governmental activities (Exhibit 1)	\$	<u>43,281,427</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	General	Public Works	Family Services
Revenues			
Taxes	\$ 1,813,418	\$ 459,758	\$ 671,236
Special assessments	-	-	-
Licenses and permits	940	-	-
Intergovernmental	1,576,682	4,151,886	1,632,667
Charges for services	1,047,408	251,607	62,676
Fines and forfeits	29,197	-	-
Investment earnings	223,211	29,407	-
Miscellaneous	130,900	89,122	146,363
Total Revenues	\$ 4,821,756	\$ 4,981,780	\$ 2,512,942
Expenditures			
Current			
General government	\$ 2,093,647	\$ -	\$ -
Public safety	1,697,785	-	-
Highways and streets	-	5,076,074	-
Sanitation	-	223,350	-
Human services	-	-	2,330,914
Health	16,800	-	-
Culture and recreation	220,186	-	-
Conservation of natural resources	126,410	-	-
Economic development	1,900	-	-
Intergovernmental	144,141	196,290	-
Debt service			
Principal	32,170	22,847	-
Interest	13,362	3,222	-
Bond issuance costs	-	-	-
Total Expenditures	\$ 4,346,401	\$ 5,521,783	\$ 2,330,914
Excess of Revenues Over (Under) Expenditures	\$ 475,355	\$ (540,003)	\$ 182,028
Other Financing Sources (Uses)			
Transfers in	\$ -	\$ 26,069	\$ -
Transfers out	(50,972)	-	-
Total Other Financing Sources (Uses)	\$ (50,972)	\$ 26,069	\$ -
Net Change in Fund Balances	\$ 424,383	\$ (513,934)	\$ 182,028
Fund Balances - January 1, as previously reported	\$ 3,069,553	\$ 1,528,872	\$ 1,124,337
Prior period adjustment (Note 1.E.)	-	251,048	-
Fund Balances - January 1, as restated	\$ 3,069,553	\$ 1,779,920	\$ 1,124,337
Fund Balances - December 31	\$ 3,493,936	\$ 1,265,986	\$ 1,306,365

EXHIBIT 5

Land Management	Ditch	Debt Service	Capital Projects	Total
\$ 15,888	\$ -	\$ 46,139	\$ -	\$ 3,006,439
209,466	-	-	-	209,466
45,638	-	-	-	46,578
138,560	-	21,969	-	7,521,764
2,157	-	-	-	1,363,848
-	-	-	-	29,197
-	-	-	70,857	323,475
79,929	-	-	-	446,314
\$ 491,638	\$ -	\$ 68,108	\$ 70,857	\$ 12,947,081
\$ 28,112	\$ -	\$ -	\$ -	\$ 2,121,759
-	-	-	1,872,152	3,569,937
-	-	-	-	5,076,074
223,275	-	-	-	446,625
-	-	-	-	2,330,914
-	-	-	-	16,800
-	-	-	-	220,186
128,423	193	-	-	255,026
-	-	-	-	1,900
-	-	-	-	340,431
-	-	120,000	-	175,017
-	-	56,710	-	73,294
-	-	6,315	-	6,315
\$ 379,810	\$ 193	\$ 183,025	\$ 1,872,152	\$ 14,634,278
\$ 111,828	\$ (193)	\$ (114,917)	\$ (1,801,295)	\$ (1,687,197)
\$ -	\$ -	\$ 65,972	\$ -	\$ 92,041
(26,069)	-	-	(15,000)	(92,041)
\$ (26,069)	\$ -	\$ 65,972	\$ (15,000)	\$ -
\$ 85,759	\$ (193)	\$ (48,945)	\$ (1,816,295)	\$ (1,687,197)
\$ 790,071	\$ 22,159	\$ 65,502	\$ 1,711,304	\$ 8,311,798
-	-	-	-	251,048
\$ 790,071	\$ 22,159	\$ 65,502	\$ 1,711,304	\$ 8,562,846
\$ 875,830	\$ 21,966	\$ 16,557	\$ (104,991)	\$ 6,875,649

**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (1,687,197)

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

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

Deferred revenue - December 31	\$ 1,013,648	
Deferred revenue - January 1, as restated	(745,102)	268,546

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	\$ 4,088,993	
Capital assets disposed of	(10)	
Current year depreciation	(1,226,039)	2,862,944

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

Principal repayments		
General obligation bonds	\$ 120,000	
Capital leases payable	55,017	175,017

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	\$ (48,074)	
Change in accrued interest payable	(22,579)	
Discount and bond issuance costs amortization	(2,614)	(73,267)

Change in net assets of governmental activities (Exhibit 2) \$ 1,546,043

FIDUCIARY FUNDS

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**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2006**

<u>Assets</u>	
Cash and pooled investments	<u>\$ 420,797</u>
<u>Liabilities</u>	
Accounts payable	\$ 347,326
Due to other governments	<u>73,471</u>
Total Liabilities	<u>\$ 420,797</u>

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**ROCK COUNTY
LIVERNE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

Component Unit

The Rock County Rural Water District is included in the County's reporting entity because of the significance of its operational and financial relationship with the County. The Rock County Rural Water District was established in 1978 to provide water to rural residents of Rock County. It is governed by a board composed of seven members appointed by the Rock County Board of Commissioners. It is reported in a separate

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Component Unit (Continued)

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.

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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 the governmental fund financial statements is on major individual governmental funds with each displayed as a separate column in the fund financial statements.

The County reports the following major governmental funds:

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

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

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

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

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

Rock County and its component unit have defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County and component unit'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, 2006, 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. Investment earnings on the Rock County Rural Water District funds are credited to the Rock County Rural Water District. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2006 were \$144,236 for the County.

The Rural Water District's investment income for the year ended December 31, 2006, was \$27,314 and is included in general revenues.

Rock County and its component unit invest in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

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

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account 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. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

4. Inventories

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

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
LUVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Capital Assets

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

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Public domain infrastructure	40
Machinery and equipment	5 - 20

6. Compensated Absences

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

8. Long-Term Obligations

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

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

9. Fund Equity

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. 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 estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Prior Period Adjustments

During 2006, the County determined that it had incorrectly recorded contracts payable in the Public Works Special Revenue Fund, and revenue recognition on state highway allotments was incorrect at December 31, 2005. Additionally, the County established an allowance for uncollectible loans receivable. The effect on beginning net assets for governmental activities and beginning fund balance for the Public Works Special Revenue Fund is:

	Governmental Activities	Public Works Fund
Beginning Net Assets/Fund Balance	\$ 40,830,278	\$ 1,528,872
To establish an allowance for doubtful accounts	(236,070)	(236,070)
Revenue recognition - state allotments	865,057	210,999
Correction of an error - contracts payable	276,119	276,119
Net Assets/Fund Balance, Restated	\$ 41,735,384	\$ 1,779,920

2. Stewardship, Compliance, and Accountability

A. Deficit Net Assets

The Capital Projects Fund had a deficit fund balance at December 31, 2006, of \$104,991. The County expects an excess of revenues over expenditures in the future will eliminate the deficit.

**ROCK COUNTY
LIVERNE, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

B. Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2006:

Fund	Expenditures	Budget	Excess
Public Works Special Revenue Fund	\$ 5,521,783	\$ 1,935,013	\$ 3,586,770
Debt Service Fund	183,025	68,198	114,827

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

	Primary Government	Component Unit
Government-wide activities		
Cash and pooled investments	\$ 3,524,410	\$ 40,907
Investments	3,341,367	762,172
Investments - restricted	-	1,163,245
Fiduciary net assets		
Cash and pooled investments	420,797	-
Total Cash and Investments	<u>\$ 7,286,574</u>	<u>\$ 1,966,324</u>
Petty cash and change funds	\$ 1,350	\$ 50
Checking - County	3,797,985	188,245
Deposits - Rural Water District	-	40,857
Money market savings	112,405	-
Certificates of deposit	3,088,350	1,548,059
MAGIC Fund	253,017	189,113
SWF checking account	33,467	-
Total Deposits and Investments	<u>\$ 7,286,574</u>	<u>\$ 1,966,324</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County will 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, 2006, the County's deposits were not exposed to custodial credit risk.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits

Custodial Credit Risk (Continued)

As of December 31, 2006, \$446,278 of the Rural Water District's bank balance of \$1,966,324 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 40,000
Uninsured and uncollateralized with securities held by the pledging financial institution's trust department not in the Rural Water District's name	<u>406,278</u>
Total	<u>\$ 446,278</u>

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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 will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the County's cash requirements.

Credit Risk

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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 will minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31, 2006, the County's investments were not exposed to custodial credit risk.

The Rural Water District component unit does not have a custodial credit risk policy for investments as of December 31, 2006.

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.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County and its component unit's investment balances at December 31, 2006, and information relating to potential investment risks:

<u>Investment Type</u>	<u>Credit Risk</u>		<u>Carrying (Fair) Value</u>
	<u>Credit Rating</u>	<u>Rating Agency</u>	
Investment pools/mutual funds			
MAGIC Fund	N/R	N/A	\$ 442,130
Deposits			
Checking			3,986,230
Savings			112,405
Certificates of deposit			4,636,409
Petty cash			1,400
SWF checking account			33,467
Deposits held by component unit			40,857
			<u>40,857</u>
Total Cash and Investments			<u>\$ 9,252,898</u>

N/A - Not Applicable; N/R - Not Rated

2. Receivables

Receivables as of December 31, 2006, for the County's governmental activities, net of the applicable allowances for uncollectible accounts, are as follows:

	<u>Primary Government Receivables</u>	<u>Component Unit Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities			
Taxes	\$ 34,054	\$ 2,630	\$ 2,630
Special assessments	6,862	-	-
Accounts	91,508	108	-
Loans receivable	44,000	-	28,000
Interest	72,096	11,148	-
Due from other governments	1,972,132	-	-
	<u>1,972,132</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	<u>\$ 2,220,652</u>	<u>\$ 13,886</u>	<u>\$ 30,630</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Loans Receivable

On September 5, 2000, Rock County loaned the Rock County Developmental Achievement Center (DAC) \$120,000 for an expansion project with no interest to be paid back in payments of \$15,000 to \$20,000 annually. Loans receivable activity consisted of cash loans to other private enterprises and several repayments. Loans receivable activity is as follows:

	Loans Receivable
Buffalo Ridge Rail Authority	\$ 236,070
Day Activity Center of Luverne	55,000
Rock County Developmental Achievement Center	120,000
Luverne Optimist Hockey Club	5,000
Loans Receivable, January 1, 2006	\$ 416,070
Payments received during the year	(136,000)
Loans Receivable	\$ 280,070
Less: allowance for uncollectible accounts	(236,070)
Net Loans Receivable	\$ 44,000

The ending balance is made up of \$40,000 owed by the Day Activity Center of Luverne and \$4,000 from the Luverne Optimist Hockey Club.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 173,889	\$ 18,035	\$ -	\$ 191,924
Right-of-way	984,431	1,500	10	985,921
Construction in progress	123,417	1,762,678	-	1,886,095
Total capital assets not depreciated	<u>\$ 1,281,737</u>	<u>\$ 1,782,213</u>	<u>\$ 10</u>	<u>\$ 3,063,940</u>
Capital assets depreciated				
Buildings	\$ 3,876,893	\$ -	\$ -	\$ 3,876,893
Machinery, furniture, and equipment	5,142,354	489,959	214,221	5,418,092
Infrastructure	36,929,703	1,816,821	-	38,746,524
Total capital assets depreciated	<u>\$ 45,948,950</u>	<u>\$ 2,306,780</u>	<u>\$ 214,221</u>	<u>\$ 48,041,509</u>
Less: accumulated depreciation for				
Buildings	\$ 1,660,392	\$ 69,294	\$ -	\$ 1,729,686
Machinery, furniture, and equipment	2,262,327	381,814	214,221	2,429,920
Infrastructure	8,091,164	774,931	-	8,866,095
Total accumulated depreciation	<u>\$ 12,013,883</u>	<u>\$ 1,226,039</u>	<u>\$ 214,221</u>	<u>\$ 13,025,701</u>
Total capital assets depreciated, net	<u>\$ 33,935,067</u>	<u>\$ 1,080,741</u>	<u>\$ -</u>	<u>\$ 35,015,808</u>
Capital Assets, Net	<u>\$ 35,216,804</u>	<u>\$ 2,862,954</u>	<u>\$ 10</u>	<u>\$ 38,079,748</u>

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

Governmental activities	
General government	\$ 135,169
Public safety	47,449
Sanitation	29,708
Highways and streets	961,742
Human services	47,451
Conservation of natural resources	4,520
Total Depreciation Expense - Governmental Activities	<u>\$ 1,226,039</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

4. Capital Assets (Continued)

Rock County Rural Water District

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land and right-of-way	\$ 98,087	\$ 8,500	\$ -	\$ 106,587
Lewis and Clark Project	31,957	23,968	-	55,925
Construction in progress	21,704	-	-	21,704
Total capital assets not depreciated	\$ 151,748	\$ 32,468	\$ -	\$ 184,216
Capital assets depreciated				
Buildings and pumps	\$ 2,787,616	\$ 10,733	\$ -	\$ 2,798,349
Machinery, furniture, and equipment	162,400	4,968	-	167,368
Infrastructure - distribution system	3,921,851	9,336	-	3,931,187
Total capital assets depreciated	\$ 6,871,867	\$ 25,037	\$ -	\$ 6,896,904
Less: accumulated depreciation for				
Buildings and pumps	\$ 1,092,747	\$ 81,367	\$ -	\$ 1,174,114
Machinery, furniture, and equipment	135,801	9,744	-	145,545
Infrastructure - distribution system	1,469,527	100,497	-	1,570,024
Total accumulated depreciation	\$ 2,698,075	\$ 191,608	\$ -	\$ 2,889,683
Total capital assets depreciated, net	\$ 4,173,792	\$ (166,571)	\$ -	\$ 4,007,221
Capital Assets, Net	\$ 4,325,540	\$ (134,103)	\$ -	\$ 4,191,437

Depreciation expense of \$191,608 was charged to the Rural Water District function on the statement of activities for the year ended December 31, 2006.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2006, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Public Works	\$ 393
	Family Services	8,481
	Land Management	267
		9,141
Total Due To/From Other Funds		\$ 9,141

The outstanding balances between funds result from the time lag between the dates the interfund goods and services were provided and reimbursable expenditures occurred, and when transactions are recorded in the accounting system and when the funds are repaid. All balances are expected to be liquidated in the subsequent year.

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Public Works	\$ 400,000
		400,000

The advance is to provide working capital to the Public Works Special Revenue Fund, which is dealing with low reserves and current operating costs in excess of its revenues. This balance will be paid from future taxes and aids.

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2006, consisted of the following:

Transfers to Public Works Special Revenue Fund from Land Management Special Revenue Fund	\$ 26,069	Provide funding
Transfer to Debt Service Fund from General Fund	50,972	Provide funding
Transfer to Debt Service Fund from Capital Projects Fund	<u>15,000</u>	Provide funding
Total Interfund Transfers	<u>\$ 92,041</u>	

C. Liabilities

1. Payables

Payables at December 31, 2006, were as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Accounts	\$ 130,440	\$ 2,139
Salaries	68,637	66,155
Contracts	1,077,868	-
Due to other governments	76,842	-
Other	<u>-</u>	<u>2,630</u>
Total Payables	<u>\$ 1,353,787</u>	<u>\$ 70,924</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Leases

Capital Leases

Rock County has two lease agreements that qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. They consist of the following at December 31, 2006:

<u>Capital Lease</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2006</u>
HVAC system	2013	\$45,382	4.45	\$ 361,168	\$ 268,797
Caterpillar loader issued 11/18/03	2008	\$26,069	4.50	<u>118,058</u>	<u>48,764</u>
Total				<u>\$ 479,226</u>	<u>\$ 317,561</u>

The gross amounts of assets included in the statement of net assets recorded under capital lease are \$887,113, and the related accumulated depreciation included in the general government and highways and streets accumulated depreciation is \$149,592.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Leases

Capital Leases (Continued)

Payments on the HVAC system capital lease are made from the General Fund. Payments for the Caterpillar capital lease are made from the Public Works Special Revenue Fund. The future lease obligations and the net present value of these minimum lease payments as of December 31, 2006, were as follows:

Year Ending December 31	Amount
2007	\$ 71,600
2008	71,602
2009	45,532
2010	45,531
2011	45,532
2012 - 2016	91,064
Total minimum lease payments	\$ 370,861
Less: amount representing interest	(53,300)
Present Value of Future Minimum Lease Payments	\$ 317,561

3. Long-Term Debt

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
General obligation notes					
2003 G.O. Courthouse Bonds	2009	\$55,000 - \$60,000	1.80 - 3.05	\$ 295,000	\$ 120,000
2005 G.O. Capital Improvement Bonds	2026	\$45,000 - \$125,000	2.90 - 4.30	1,750,000	1,750,000
Subtotal				\$ 2,045,000	\$ 1,870,000
Less: discounts				(30,370)	(28,839)
Total General Obligation Bonds, Net				\$ 2,014,630	\$ 1,841,161

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Discrete Component Unit

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.

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2006</u>
General obligation bonds 2000 G.O. Revenue Bonds	2019	\$14,000 - \$89,000	1.79	<u>\$ 1,460,000</u>	<u>\$ 1,040,000</u>

4. Debt Service Requirements

Debt service requirements at December 31, 2006, were as follows:

Governmental Activities

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>		<u>Capital Leases</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 45,000	\$ 66,772	\$ 57,445	\$ 14,156
2008	125,000	67,768	59,953	11,647
2009	125,000	64,013	36,625	8,907
2010	70,000	60,918	38,254	7,277
2011	70,000	58,572	39,957	5,575
2012 - 2016	395,000	252,321	85,327	5,737
2017 - 2021	465,000	169,234	-	-
2022 - 2026	575,000	63,205	-	-
Total	<u>\$ 1,870,000</u>	<u>\$ 802,803</u>	<u>\$ 317,561</u>	<u>\$ 53,299</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

Discrete Component Unit

Year Ending December 31	General Obligation Revenue Bonds	
	Principal	Interest
2007	\$ 72,000	\$ 18,616
2008	73,000	17,326
2009	74,000	16,021
2010	76,000	14,696
2011	77,000	13,336
2012 - 2016	406,000	45,519
2017 - 2019	262,000	9,433
Total	<u>\$ 1,040,000</u>	<u>\$ 134,947</u>

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds payable	\$ 1,990,000	\$ -	\$ 120,000	\$ 1,870,000	\$ 45,000
Less: deferred amounts for issuance discounts	(30,370)	-	(1,531)	(28,839)	-
Total bonds payable	\$ 1,959,630	\$ -	\$ 118,469	\$ 1,841,161	\$ 45,000
Capital leases	372,578	-	55,017	317,561	57,445
Compensated absences	465,944	48,074	-	514,018	49,551
Governmental Activities Long-Term Liabilities	<u>\$ 2,798,152</u>	<u>\$ 48,074</u>	<u>\$ 173,486</u>	<u>\$ 2,672,740</u>	<u>\$ 151,996</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Changes in Long-Term Liabilities (Continued)

Discrete Component Unit

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. revenue bonds	\$ 1,111,000	\$ -	\$ 71,000	\$ 1,040,000	\$ 72,000

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers that qualify for membership by statute are covered by the Public Employees Police and Fire Fund.

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, and all Public Employees Police and Fire Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members were required to contribute 7.00 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007.

The County is required to contribute the following percentages of annual covered payroll in 2006 and 2007:

	2006	2007
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.25
Public Employees Police and Fire Fund	10.50	11.70

The County's contributions for the years ending December 31, 2006, 2005, and 2004, for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund
2006	\$ 184,404	\$ 66,695
2005	158,023	56,272
2004	153,358	53,089

The Rock County Rural Water District's contributions to the Public Employees Retirement Fund for December 31, 2006, 2005, and 2004, were \$9,863, \$9,481, and \$8,507, respectively. These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans (Continued)

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer.

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan.

The County's contributions for the years ending December 31, 2006, 2005, and 2004, were \$1,851, \$1,682, and \$1,682, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters, for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County purchases commercial insurance for employee health and dental coverage as well as for other risks. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

**ROCK COUNTY
LIVERNE, MINNESOTA**

5. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$390,000 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

6. Summary of Significant Contingencies and Other Items

A. Subsequent Event

The Rock County Rural Water District received approval on March 5, 2007, of a 1.02 percent loan from the Minnesota Public Facilities Authority for \$533,000 to pay for the Rural Water District's cost associated with the Lewis and Clark Rural Water Project. Repayment starts in 2008.

B. Contingent Liabilities

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

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

C. Joint Ventures

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

Lincoln-Pipestone Rural Water System

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

Bonds were issued by Lincoln County to finance the construction of the rural water system. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2005 (the latest information available), are \$19,479,940.

The Water System's 2005 financial report shows total net assets of \$38,281,293, including unrestricted net assets of \$17,280,678. The increase in net assets for the year ended December 31, 2005, was \$552,492.

Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at East Highway 14, P. O. Box 88, Lake Benton, Minnesota 56149-0188.

**ROCK COUNTY
LUVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Nobles-Rock Public Health Services

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

The Nobles-Rock Public Health Services is headquartered in Worthington, Minnesota, with offices at the county seats of the member counties. Financing is provided by state grants, appropriations from member counties, and charges for services. The County's contribution for December 31, 2006, was \$ 91,903.

Financial data of the Health Services for the year ended December 31, 2005 (the latest information available), are:

Total Assets	\$	562,515
Total Liabilities		249,159
Total Net Assets		313,356
Total Revenues		1,639,088
Total Expenditures/Expenses		1,716,172
Increase (Decrease) in Fund Equity		(77,084)

The Health Services' long-term debt consists of compensated absences of \$91,230.

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

Rock-Nobles Community Corrections

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Rock-Nobles Community Corrections (Continued)

Rock-Nobles Community Corrections is headquartered in Worthington, Minnesota, with offices at the county seats of the member counties. Financing is provided by state grants and appropriations from member counties. Rock County's contributions to Rock-Nobles Community Corrections for the year ended December 31, 2006, were \$52,238.

The following is a summary of Rock-Nobles Community Corrections' annual financial report for the year ended December 31, 2005 (the latest information available):

Total Assets	\$	172,672
Total Liabilities		68,616
Total Fund Equity		104,056
Total Revenues		616,513
Total Expenditures/Expenses		577,027
Increase (Decrease) in Fund Equity		39,486

Rock-Nobles Community Corrections' long-term debt consists of employees' compensated absences payable of \$48,906 as of December 31, 2005.

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

Southwestern Minnesota Adult Mental Health Consortium Board

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

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

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

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

D. Jointly-Governed Organizations

Kanaranzi-Little Rock Watershed District

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

Rock County Family Service Collaborative

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

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REQUIRED SUPPLEMENTARY INFORMATION

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**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,049,754	\$ 2,049,754	\$ 1,813,418	\$ (236,336)
Licenses and permits	615	615	940	325
Intergovernmental	1,085,992	1,085,992	1,576,682	490,690
Charges for services	1,011,908	1,011,908	1,047,408	35,500
Fines and forfeits	20,000	20,000	29,197	9,197
Investment earnings	30,000	30,000	223,211	193,211
Miscellaneous	143,737	143,737	130,900	(12,837)
Total Revenues	\$ 4,342,006	\$ 4,342,006	\$ 4,821,756	\$ 479,750
Expenditures				
Current				
General government				
Commissioners	\$ 190,451	\$ 190,451	\$ 177,538	\$ 12,913
Courts	6,500	6,500	3,581	2,919
Law library	-	-	12,175	(12,175)
Administrator	156,643	156,643	146,668	9,975
Auditor/Treasurer	221,492	221,492	234,224	(12,732)
License center	84,708	84,708	86,023	(1,315)
Elections	275,517	275,517	189,696	85,821
Accounting and auditing	33,000	33,000	28,181	4,819
Data processing	156,329	156,329	112,577	43,752
Attorney	135,414	135,414	134,936	478
Land records	331,446	331,446	347,968	(16,522)
Buildings and plant	320,602	320,602	219,415	101,187
Veterans service officer	51,645	51,645	52,986	(1,341)
Transportation	275,954	275,954	342,395	(66,441)
Other general government	-	-	5,284	(5,284)
Total general government	\$ 2,239,701	\$ 2,239,701	\$ 2,093,647	\$ 146,054
Public safety				
Sheriff	\$ 1,426,329	\$ 1,426,329	\$ 1,416,871	\$ 9,458
Coroner	10,000	10,000	10,494	(494)
E-911 system	-	-	121,930	(121,930)
Law enforcement center	137,500	137,500	147,764	(10,264)
Probation and parole	-	-	12	(12)
Emergency services	1,442	1,442	714	728
Total public safety	\$ 1,575,271	\$ 1,575,271	\$ 1,697,785	\$ (122,514)
Health				
Ambulance	\$ 16,800	\$ 16,800	\$ 16,800	\$ -

**ROCK COUNTY
LIVERNE, MINNESOTA**

**Schedule 1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Culture and recreation				
Historical society	\$ -	\$ -	\$ 6,250	\$ (6,250)
Minnesota trails	-	-	12,836	(12,836)
Community pool and fitness center	70,777	70,777	71,473	(696)
Senior citizens	5,604	5,604	4,442	1,162
Regional library	121,885	121,885	122,185	(300)
Other	25,250	25,250	3,000	22,250
Total culture and recreation	\$ 223,516	\$ 223,516	\$ 220,186	\$ 3,330
Conservation of natural resources				
Extension	\$ 114,145	\$ 114,145	\$ 110,410	\$ 3,735
Agricultural society	-	-	16,000	(16,000)
Total conservation of natural resources	\$ 114,145	\$ 114,145	\$ 126,410	\$ (12,265)
Economic development				
Tourism promotion	\$ 1,900	\$ 1,900	\$ 1,900	\$ -
Intergovernmental				
Public safety	\$ 52,238	\$ 52,238	\$ 52,238	\$ -
Health	\$ 91,903	\$ 91,903	\$ 91,903	\$ -
Debt service				
Principal	\$ 32,170	\$ 32,170	\$ 32,170	\$ -
Interest	\$ 13,362	\$ 13,362	\$ 13,362	\$ -
Total Expenditures	\$ 4,361,006	\$ 4,361,006	\$ 4,346,401	\$ 14,605
Excess of Revenues Over (Under) Expenditures	\$ (19,000)	\$ (19,000)	\$ 475,355	\$ 494,355
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (50,972)	\$ (50,972)
Proceeds from loan repayments	19,000	19,000	-	(19,000)
Total Other Financing Sources (Uses)	\$ 19,000	\$ 19,000	\$ (50,972)	\$ (69,972)
Net Change in Fund Balance	\$ -	\$ -	\$ 424,383	\$ 424,383
Fund Balance - January 1	3,069,553	3,069,553	3,069,553	-
Fund Balance - December 31	\$ 3,069,553	\$ 3,069,553	\$ 3,493,936	\$ 424,383

**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
PUBLIC WORKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 514,363	\$ 514,363	\$ 459,758	\$ (54,605)
Intergovernmental	1,120,590	1,120,590	4,151,886	3,031,296
Charges for services	236,030	236,030	251,607	15,577
Investment earnings	52,030	52,030	29,407	(22,623)
Miscellaneous	12,000	12,000	89,122	77,122
Total Revenues	\$ 1,935,013	\$ 1,935,013	\$ 4,981,780	\$ 3,046,767
Expenditures				
Current				
Highways and streets				
Administration	\$ 188,384	\$ 188,384	\$ 191,760	\$ (3,376)
Maintenance	915,947	915,947	848,794	67,153
Construction	192,670	192,670	3,519,048	(3,326,378)
Equipment and maintenance shops	328,462	328,462	400,907	(72,445)
Material and services for resale	14,000	14,000	24,843	(10,843)
Other	86,520	86,520	90,722	(4,202)
Total highways and streets	\$ 1,725,983	\$ 1,725,983	\$ 5,076,074	\$ (3,350,091)
Sanitation				
Solid waste	\$ 209,030	\$ 209,030	\$ 223,350	\$ (14,320)
Intergovernmental				
Highways and streets	\$ -	\$ -	\$ 196,290	\$ (196,290)
Debt service				
Principal	\$ -	\$ -	\$ 22,847	\$ (22,847)
Interest	\$ -	\$ -	\$ 3,222	\$ (3,222)
Total Expenditures	\$ 1,935,013	\$ 1,935,013	\$ 5,521,783	\$ (3,586,770)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ (540,003)	\$ (540,003)
Other Financing Sources (Uses)				
Transfers in	-	-	26,069	26,069
Net Change in Fund Balance	\$ -	\$ -	\$ (513,934)	\$ (513,934)
Fund Balance - January 1, as previously reported	\$ 1,528,872	\$ 1,528,872	\$ 1,528,872	\$ -
Prior period adjustment	251,048	251,048	251,048	-
Fund Balance - January 1, as restated	\$ 1,779,920	\$ 1,779,920	\$ 1,779,920	\$ -
Fund Balance - December 31	\$ 1,779,920	\$ 1,779,920	\$ 1,265,986	\$ (513,934)

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

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**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 772,508	\$ 772,508	\$ 671,236	\$ (101,272)
Intergovernmental	1,415,302	1,415,302	1,632,667	217,365
Charges for services	55,936	55,936	62,676	6,740
Miscellaneous	109,010	109,010	146,363	37,353
Total Revenues	\$ 2,352,756	\$ 2,352,756	\$ 2,512,942	\$ 160,186
Expenditures				
Current				
Human services				
Income maintenance	\$ 844,534	\$ 844,534	\$ 851,393	\$ (6,859)
Social services	1,508,222	1,508,222	1,479,521	28,701
Total Expenditures	\$ 2,352,756	\$ 2,352,756	\$ 2,330,914	\$ 21,842
Net Change in Fund Balance	\$ -	\$ -	\$ 182,028	\$ 182,028
Fund Balance - January 1	1,124,337	1,124,337	1,124,337	-
Fund Balance - December 31	\$ 1,124,337	\$ 1,124,337	\$ 1,306,365	\$ 182,028

**ROCK COUNTY
LUVERNE, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
LAND MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 18,226	\$ 18,226	\$ 15,888	\$ (2,338)
Special assessments	184,327	184,327	209,466	25,139
Licenses and permits	24,748	24,748	45,638	20,890
Intergovernmental	138,597	138,597	138,560	(37)
Charges for services	-	-	2,157	2,157
Miscellaneous	60,153	60,153	79,929	19,776
Total Revenues	\$ 426,051	\$ 426,051	\$ 491,638	\$ 65,587
Expenditures				
Current				
General government				
Planning and zoning	\$ 27,326	\$ 27,326	\$ 28,112	\$ (786)
Sanitation				
Solid waste	\$ 171,624	\$ 171,624	\$ 134,875	\$ 36,749
Recycling	70,448	70,448	67,298	3,150
Hazardous waste	24,920	24,920	21,102	3,818
Total sanitation	\$ 266,992	\$ 266,992	\$ 223,275	\$ 43,717
Conservation of natural resources				
Agricultural inspection	\$ 10,832	\$ 10,832	\$ 9,643	\$ 1,189
Water planning	120,901	120,901	118,780	2,121
Total conservation of natural resources	\$ 131,733	\$ 131,733	\$ 128,423	\$ 3,310
Total Expenditures	\$ 426,051	\$ 426,051	\$ 379,810	\$ 46,241
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 111,828	\$ 111,828
Other Financing Sources (Uses)				
Transfers out	-	-	(26,069)	(26,069)
Net Change in Fund Balance	\$ -	\$ -	\$ 85,759	\$ 85,759
Fund Balance - January 1	790,071	790,071	790,071	-
Fund Balance - December 31	\$ 790,071	\$ 790,071	\$ 875,830	\$ 85,759

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**ROCK COUNTY
LIVERNE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. General Budget Policies

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

The budgets may be amended or modified at any time by the County Board. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the General Fund and budgeted special revenue funds.

2. Budget Basis of Accounting

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

3. Budget Amendments

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

4. Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2006:

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Public Works Special Revenue Fund	\$ 5,521,783	\$ 1,935,013	\$ 3,586,770
Debt Service Fund	183,025	68,198	114,827

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SUPPLEMENTARY INFORMATION

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**ROCK COUNTY
LUVERNE, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 53,064	\$ 53,064	\$ 46,139	\$ (6,925)
Intergovernmental	15,134	15,134	21,969	6,835
Total Revenues	\$ 68,198	\$ 68,198	\$ 68,108	\$ (90)
Expenditures				
Debt service				
Principal	\$ 68,198	\$ 68,198	\$ 120,000	\$ (51,802)
Interest	-	-	56,710	(56,710)
Bond issuance costs	-	-	6,315	(6,315)
Total Expenditures	\$ 68,198	\$ 68,198	\$ 183,025	\$ (114,827)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (114,917)	\$ (114,917)
Other Financing Sources (Uses)				
Transfers in	-	-	65,972	65,972
Net Change in Fund Balance	\$ -	\$ -	\$ (48,945)	\$ (48,945)
Fund Balance - January 1	65,502	65,502	65,502	-
Fund Balance - December 31	\$ 65,502	\$ 65,502	\$ 16,557	\$ (48,945)

**ROCK COUNTY
LIVERNE, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 333,208	\$ 148,018	\$ 167,367	\$ 313,859
<u>Liabilities</u>				
Accounts payable	\$ 333,208	\$ 148,018	\$ 167,367	\$ 313,859
 <u>SOCIAL WELFARE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 27,547	\$ 263,541	\$ 257,621	\$ 33,467
<u>Liabilities</u>				
Accounts payable	\$ 27,547	\$ 263,541	\$ 257,621	\$ 33,467
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 60,517	\$ 8,194,818	\$ 8,181,864	\$ 73,471
<u>Liabilities</u>				
Due to other governments	\$ 60,517	\$ 8,194,818	\$ 8,181,864	\$ 73,471

**ROCK COUNTY
LIVERNE, MINNESOTA**

*Statement 1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 421,272	\$ 8,606,377	\$ 8,606,852	\$ 420,797
<u>Liabilities</u>				
Accounts payable	\$ 360,755	\$ 411,559	\$ 424,988	\$ 347,326
Due to other governments	60,517	8,194,818	8,181,864	73,471
Total Liabilities	\$ 421,272	\$ 8,606,377	\$ 8,606,852	\$ 420,797

**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 6

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Shared Revenue

State

Highway users tax	\$	3,715,707
County program aid		955,229
PERA rate reimbursement		15,088
Disparity reduction aid		7,017
Police aid		56,272
Enhanced 911		81,748
Market value credit		424,290
		424,290

Total Shared Revenue **\$ 5,255,351**

Reimbursement for Services

Minnesota Department of Human Services	\$	711,990
		711,990

Payments

Local

Payments in lieu of taxes	\$	47,400
Local		11,960
		11,960

Total Payments **\$ 59,360**

Grants

State

Minnesota Department of		
Corrections	\$	2,295
Human Services		468,447
Natural Resources		12,836
Transportation		154,711
Peace Officer Standards and Training Board		4,431
Water and Soil Resources Board		81,853
Pollution Control Agency		49,079
		49,079

Total State **\$ 773,652**

Federal

Department of		
Agriculture	\$	1,906
Transportation		287,950
Health and Human Services		150,718
Homeland Security		111,411
Election Assistance Commission		169,426
		169,426

Total Federal **\$ 721,411**

Total State and Federal Grants **\$ 1,495,063**

Total Intergovernmental Revenue **\$ 7,521,764**

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**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 7

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Rock County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Rock County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." We consider some of the deficiencies to be material weaknesses.
- C. No instances of noncompliance material to the financial statements of Rock County were disclosed during the audit.
- D. A matter involving internal control over compliance relating to the audit of a major federal award program is reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133." The matter is not a material deficiency.
- E. The Auditor's Report on Compliance for the major federal award programs for Rock County expresses an unqualified opinion.
- F. A finding was disclosed that is required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Highway Planning and Construction	CFDA #20.205
Help America Vote Act Requirements Payments	CFDA #90.401
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Rock County was determined not to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

05-1 Internal Accounting Controls

Due to the limited number of office personnel within the various County offices and departments, segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible. Offices and departments we noted this year that do not have sufficient segregation of duties include the Auditor/Treasurer, License Center, and Land Records.

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

- Someone independent of the cash collection and receipting function and the cash disbursement function should prepare bank reconciliations. If this is not possible, someone independent of these functions should review the bank reconciliations.
- Individuals who collect and receipt cash should not also:
 - post cash receipts to the general ledger system,
 - process cash disbursements,
 - maintain the general ledger,
 - make bank deposits,
 - make wire transfers,
 - make general journal entries, or
 - prepare billings.
- Individuals who process vouchers for payments should not also:
 - print or sign checks or
 - make journal entries.

The County does not segregate the duties of the payroll function. The payroll clerk makes changes or updates the payroll master file, prepares the payroll, and generates the payroll reports and checks with little oversight or review. In the Auditor/Treasurer's Office, the person who does the monthly bank reconciliations also performs daily receipting and balancing and prepares deposits.

We recommend that County management segregate these duties within the accounting functions as much as possible by limiting access to accounting programs commensurate to the employees' duties and job responsibilities. If it is not possible to segregate these duties, County management should be aware of this lack of segregation of duties and implement oversight procedures to ensure the integrity and reliability of the financial information in the accounting system.

Client's Response:

Due to limited personnel, the County will continue to explore methods for segregation of duties.

05-2 Sheriff's Department Cash Handling Procedures

During our audit of the Sheriff's Department, we noted several internal control weaknesses. They are as follows:

- Receipts for civil process are not made on a timely basis. Checks are held for a period of time before the receipt is written and endorsed "For Deposit Only."
- Bond payments are not receipted.
- Receipts in July 2006 for civil process added to \$475, but only \$425 was remitted to the Auditor/Treasurer's Office.

We recommend that all funds received be receipted in a timely manner, restrictively endorsed, and promptly remitted to the Auditor/Treasurer's Office.

Client's Response:

The Sheriff is processing civil reports and receipting bond payments in a timely manner to the Auditor/Treasurer's Office.

05-8 Computer System Controls

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

Proper controls should be maintained over the computer system to allow for proper financial reporting. The County does not maintain error logs, segregate duties over the control of the computer system, require strong passwords, or update its disaster recovery plan.

We recommend the County take steps to improve the control over its computer systems by reviewing and maintaining error logs, segregating the duties of the information technology staff, requiring passwords that are longer and include more randomized characters, and updating its disaster recovery plan.

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

Client's Response:

The County will develop and implement increased password protection for computer systems and is in process of updating a disaster recovery plan to be adopted in 2007. The County will work to mitigate the risks associated with the County's computer system.

05-9 Charge Accounts at Local Businesses

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

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

Client's Response:

The County is in the developing stage of adopting a policy.

05-10 Accounting System Journal Entry Function

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

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

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

Client's Response:

The County will take steps to improve review and approval for journal entries.

ITEMS ARISING THIS YEAR

06-1 Annual Adopted Budget and Budget Policy

The County Board adopts a summarized budget at the fund level. As a result, the detail estimated revenue source by fund, and the budgeted expenditure by fund, function, and departments, are not always clearly documented. In addition, the Board has not developed and adopted a budget policy for management's administration of the County budget.

We noted in our review that the Board-approved budgets did not agree with the recorded budget in the County's general ledger. The County did not enter any budgeted amounts for taxes or the corresponding state-paid credits in its accounting system, thereby understating budgeted revenues. Material audit adjustments were required to the budgets in order to present the budgets in the annual financial statements.

We recommend the County Board adopt and record in its minutes fund budgets by major revenue source and estimated expenditures by function and department for each of the operational funds. After adoption, someone independent of the budget process should enter the original budget and budget amendments to the general ledger. In addition, we also recommend that the County Board develop and adopt budget policies and procedures to include the following elements:

- which funds require budgets,
- the legal level of budgetary control,
- when budgets can be modified by management and when budget modifications require Board approval,
- the budgetary basis on which the budget is adopted, and
- procedures for monitoring the budget.

Client's Response:

The County will ensure the full budget is adopted and published and will develop a budget policy.

06-2 Financial Reporting

The County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal control over both recording and processing and summarizing accounting data (maintaining internal books and records) and preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

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

The County's accounting system has been upgraded to accommodate the modified accrual and full accrual bases of accounting in separate general ledger systems to allow for the preparation of the annual financial statements in accordance with generally accepted accounting principles for governments.

In order to utilize this upgrade to generate materially correct financial statements, the first step is for counties to change their accounting practices and account structure to be compliant with County Financial Accounting and Reporting Standards (COFARS). The second step is to code receipt and disbursement accounts with certain prescribed codes to allow for the detailed accounts to be summarized as required in the financial statements. This process is called mapping the general ledger accounts. The last step is to prepare

Schedule 7
(Continued)

modified accrual and full accrual adjusting journal entries to convert the cash basis information in the accounting system to the necessary basis of accounting for the County's annual financial report.

During our audit, we noted the following deficiencies that prevented the accounting system from providing accurate modified and full accrual financial statements. These deficiencies resulted in additional audit time because significant audit adjustments were required to correct the financial statements prepared by the County.

- As a result of coding and mapping errors and incomplete accrual adjusting journal entries, the modified accrual basis fund financial statements were materially misstated and needed numerous audit adjustments. The most significant of these audit adjustments related to receivables, payables, and deferred revenue. The net effect of our audit adjustments to the governmental funds financial statements for selected financial statement captions was as follows:

Total Assets	\$ (1,662,947)
Total Liabilities	(1,682,399)
Total Fund Balance	19,443
Total Revenues	(510,891)
Total Expenditures	(781,383)

- The full accrual statements prepared by the County were also materially misstated. The County did not accrue and post full accrual adjusting journal entries to convert the modified accrual statements to full accrual financial statements. Entries should have been made to report capital assets and long-term debt and eliminate interfund activities.
- Overall, oversight of financial reporting and internal control by those charged with governance was ineffective.

We recommend that the County train staff in coding receipts and disbursements and maintain COFARS compliant accounts in the accounting system with correct mapping to allow for the detail to be summarized as required in the financial statements. This process should be monitored by a knowledgeable person to ensure that the accounts are correctly summarized for financial statement purposes. As part of the financial statement preparation, summary schedules and worksheets should be prepared by County staff to document the various accrual adjusting journal entries and to demonstrate how the accounts in the financial records are classified or summarized for the annual financial

statements. When the financial statements are completed by the accounting system, County staff should review the statements to ensure that reported amounts can be traced back to the prepared supporting schedules and worksheets. Finally, the County will need to prepare full accrual journal entries in the separate general ledger accounting system to convert the financial statements from modified accrual to the full accrual basis.

In order to accomplish this, the County Board should ensure that staff assigned to prepare the annual financial statements and the required notes to the financial statements have adequate training and have a good understanding of the requirements of generally accepted accounting principles for governments. In addition, the Board should ensure that staff have the time necessary to complete the draft financial report by the date mutually agreed to with the Office of the State Auditor.

We are available to assist the County with the implementation of these recommendations. If the County intends to have staff of the Office of the State Auditor assist in preparation, then at a minimum, it must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the financial statements, including notes. As an alternative, the County could consider hiring an outside consultant to assist in preparing its basic financial statements.

Client's Response:

With the assistance of the State Auditor's Office, the County will take the necessary steps to improve its financial reporting process. The County will work to improve the coding and mapping of its accounts as well as prepare full accrual entries in the separate general ledger accounting system to convert financial statements from modified accrual to full accrual basis.

The County Board will review with staff the most effective way to meet the GAAP standard.

The Audit Committee of the County will work to develop necessary accounting procedures to develop the required notes to the annual financial statements.

06-3 Audit Adjustments and Restatements

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect misstatements of the financial statements on a timely basis. Two

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

During our audit we proposed numerous adjustments that resulted in significant changes to the County's financial statements including three material prior period adjustments. The prior period adjustments relate to: overstatement of contracts payable and the understatement of equity for year-end 2005, revenue recognition for highway allotments, and setting up an allowance for uncollectible loans receivable. The adjustments resulted from: County staff needing guidance on accounting principles and oversight to provide accurate and reliable information; accounting staff having not kept current on new accounting and reporting requirements; errors were made in recording transactions and with mapping of various account codes; controls over calculating the proper amounts of assets and liabilities did not detect a number of errors, which resulted in the client's records understating assets, liabilities, revenues, and expenditures; and the County did not consider the need for control over the recording of certain accounting transactions.

Also, Rock County holds a portion of the cash and investment balances for the Rock County Rural Water District, a discretely presented component unit. When the District was preparing its financial statements, investments of \$141,336 held by the County were not included. The County did not reconcile the amounts reported in the District's financial statements to the County's records to notice the discrepancy. The incorrect balances were not detected by the County when reporting the Rural Water District in the County's financial statements.

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

Client's Response:

The County will work to improve internal controls. This will be accomplished through additional training and contract services. The County will ensure the Water District's procedures mirror County procedures for compliance.

06-4 Accounting Policies and Procedures Manual

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

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

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

Client's Response:

The Audit Committee of the County will work on developing an accounting policies and procedures manual.

06-5 New Vendors

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

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

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

Client's Response:

The County will review and modify the process for adding new vendors to the accounting system.

06-6 Physical Count of Inventory

Rock County performed a physical count of inventory during February 2007. The County's inventory count did not match the test count performed by the Office of the State Auditor on January 3, 2007, and County personnel were unable to explain the differences between the counts.

We recommend the County perform an inventory count at or near year-end. We also recommend the County implement procedures to better track additions to and use of inventory to be able to identify reasons for differences between the County's count and subsequent test counts by others.

Client's Response:

County inventory will be done near year-end to have accurate accountability.

06-7 Inaccurate Documentation in Personnel File

An employee who works for Public Works and Heartland Express Transportation was chosen as part of our sample for testing payroll expenditures. The personnel file for this employee stated the employee would be paid the same rate for work in each department. The employee was actually paid different rates in order for his pay to be comparable to other drivers.

We recommend that complete and accurate documentation for all employees be kept in each individual's personnel file.

Client's Response:

The County will verify documentation for all employees for accuracy.

06-8 Claim Documentation - Public Purpose

Our review of County disbursements disclosed two travel claims that did not document the public purpose of the expenditure.

We recommend that the County document the public purpose of all expenditures.

Client's Response:

The County will document the public purpose of all expenditures procedures.

06-9 Cash Basis General Ledger

The cash and pooled investments balance was overstated by \$770,350 for the General Fund in the cash basis general ledger. A journal entry was made to correct cash after a previous audit, but the entry was made only in the modified accrual general ledger. Also, interest earned on the MAGIC account was recorded with a journal entry in the modified accrual general ledger with a debit to investments and a credit to investment earnings. Since the entry was recorded only in the modified accrual general ledger, the investment balance in the cash basis general ledger was incorrect.

When the Auditor/Treasurer reports on cash and investments to the County Board, the information provided is from the cash basis ledger. Therefore, if the cash ledger is misstated, information given to the Board is incorrect.

We recommend the County process all cash transactions through the cash basis general ledger in order to provide the Board with accurate financial data so the Board can make the decisions for the County based on reliable information. We also recommend that the County review the general ledger monthly and at year-end to verify that cash and investments agree with the total amount owned by the County and to ensure the cash basis ledger agrees to the modified accrual and full accrual ledgers for the cash and pooled investments and fund investment accounts.

Client's Response:

The County will process all cash transactions through the cash basis general ledger.

06-10 Capital Assets and Accumulated Depreciation

Beginning capital assets and accumulated depreciation in the County's capital assets system do not match the amounts on the County's audited financial statements for infrastructure. For January 1, 2006, the capital assets system reported infrastructure assets of \$35,047,374, with accumulated depreciation of \$7,592,445, for a net value of \$27,454,929. The amounts for the prior year audit were \$36,929,703 of infrastructure, \$8,091,164 of accumulated depreciation, and a net value of \$28,838,539. Additions for 2006 in the capital assets system also differ from the audited amount by \$97,641.

The differences date back to 2004 when infrastructure was first reported on the County's financial statements. The totals in the capital assets system did not include some items that should have been capitalized, principally engineering costs.

We recommend the County adjust the capital assets system's totals to match the audited figures by category for capital assets and accumulated depreciation.

Client's Response:

The County will adjust the capital assets system to match the audited figure.

06-11 Capital Assets Policies and Procedures

For financial reporting and asset management purposes, the County is required to keep records of its capital assets, including infrastructure. The County maintains its capital asset records on a separate software system from Computer Professionals. Capital asset additions and deletions are entered to this system, and depreciation is calculated by the system. Capital asset policies utilized by the County in maintaining the capital asset system have not been formally approved. A capital assets policy should be adopted that defines the County's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods.

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

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

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

Client's Response:

The County Board will adopt a capital assets policy that ensures appropriate accounting policies over capital assets and will establish policies and procedures to estimate useful lives of both current and future capital assets.

PREVIOUSLY REPORTED ITEMS RESOLVED

Capital Asset Disposals (05-7)

The County did not have a documented process for disposing of County assets.

Resolution

During 2006, the County adopted a formal, written policy from Steele County to document the procedures for additions and disposals of capital assets.

Receipts (05-11)

Not all departments in the County were issuing receipts for cash collected.

Resolution

Receipts are issued for all collections.

Disbursement Approval (05-12)

A sample of disbursements did not have documentation of the department head's approval before the invoice was paid.

Resolution

All disbursements sampled were approved by the applicable department head.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

ITEM ARISING THIS YEAR

06-12 Reimbursement Request Deficiencies (CFDA # 20.205)

We noted that reimbursement requests made by the County were not always timely and were not always correct. We noted the following:

- On project SP 67-597-04 work certified at December 31, 2005, was paid to the contractor on January 1, 2006, but was not submitted for reimbursement until December 31, 2006. Also, SP 67-090-01 had work certified through August 15, 2003, not submitted until December 6, 2006. There were disputes on this project, but payment to the contractor for work certified through August 15, 2003, was made on August 25, 2003.
- Amounts submitted for reimbursement on three projects did not agree with the amounts paid to the contractors. On partial payment 4, a miscellaneous adjustment for state park funds of \$65,100 was paid to the contractor.
- The Highway Department paid \$18,000 for road safety audits but requested reimbursement for \$17,973.

We recommend that reimbursement requests be completed in a timely manner and checked for accuracy before submission.

Corrective Action Plan:

Contact Person Responsible for Corrective Action:

Ed Kraayenhof

Action Planned:

Submit when project is completed. Will be reporting in a more timely manner and double checked before submitting.

Completion Date:

August 2007

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

06-13 Depository Pledge Agreements

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

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

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

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

Client’s Response:

The County did not have this pledge agreement nor had our banks heard of it. However, now I have copies of this from the State Auditor’s Office, and they are ready to be sent to all our banks.

06-14 Prompt Payment Language in Contracts

During contract compliance testing, we noted that one contract for a road construction project and the contracts for the new law enforcement center building did not “. . . require the prime contractor to pay any subcontractor within ten days of the prime contractor’s receipt of payment from the municipality for undisputed services provided by the subcontractor,” as required by Minn. Stat. § 471.425, subd. 4a.

We recommend that the County comply with Minn. Stat. § 471.425, subd. 4a, by including statutory language in contracts to ensure compliance.

Client’s Response:

All contracts will comply with Minn. Stat. § 471.425, subd. 4a.

06-15 Final Contract Payment

In 2007, final payment was made on a contract for the 2006 seal coating project before a certified Form IC-134, or an electronic equivalent, was received from a subcontractor. The certified withholding affidavit is a certification by the Minnesota Department of Revenue that withholding requirements have been met. This contract involved the employment of individuals for wages by the contractor and subcontractor.

Minn. Stat. § 270C.66 states that, “[n]o . . . political or governmental subdivision of the state shall make final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor and by subcontractors until satisfactory showing is made that said contractor or subcontractor has complied with the provisions of section 290.92.” This refers to the withholding of income taxes by the contractor or subcontractor. This applies to both resident and non-resident contractors.

We recommend that the County comply with Minn. Stat. § 270C.66.

Client’s Response:

We will comply with state law.

PREVIOUSLY REPORTED ITEMS RESOLVED

Perfected Security Interest in Collateral (05-3)

The County did not present required documentation to verify the County had a perfected security interest in its pledged collateral.

Resolution

The County now has the necessary documentation on file.

Broker Certification Form (05-4)

The County did not obtain a broker certification form from its broker before entering into investment transactions with that broker.

Resolution

The County now has the necessary documentation on file.

Equipment Rental (05-5)

The County rented a crack sealing machine in 2005 but did not obtain two or more quotes for the cost of this rental equipment as required by Minn. Stat. § 471.345, subd. 5a.

Resolution

The County did not rent any equipment during 2006.

Record Retention (05-6)

The County's Public Works Department did not retain a copy of all receipts issued during the year.

Resolution

Public Works purchased an electronic receipts program and retains an electronic copy of all receipts issued.

B. MANAGEMENT PRACTICES

ITEMS ARISING THIS YEAR

06-16 Tax Identification Number

Four organizations use the County's tax identification number on their bank accounts even though those organizations are not part of the County. The December 31, 2006, bank balance of the four accounts was \$46,406.13.

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

We recommend that the County inform these unauthorized organizations currently using the County's tax identification number that they can no longer use the number.

Client's Response:

The County will immediately notify these four organizations that they are not eligible to use our tax identification number.

06-17 Town Road Monies

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

Since Minnesota statutes allow each county board to allocate town road funds by devising a formula based, in part, on factors determined by the county board, the County has administrative involvement and should recognize the revenue and expenditures in the financial statements.

We recommend the County discontinue the practice of accounting for town road monies in an agency fund and begin recognizing the revenues and expenditures in the Public Works Special Revenue Fund.

Client's Response:

The County has created a department in the Public Works Special Revenue Fund and deposited monies into a revenue line and a disbursed out of expenditure line. This has been completed.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the County Board will need to address in order to comply with the statements are:

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

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



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

Board of County Commissioners
Rock County

We have audited the financial statements of governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County as of and for the year ended December 31, 2006, and have issued our report thereon dated September 13, 2007. We did not audit the financial statements of the Rock County Rural Water District, which represents the amounts shown as the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us. 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.

Internal Control Over Financial Reporting

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

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 05-1, 05-8, 05-10, 06-1 through 06-5, and 06-9 through 06-11 to be material weaknesses.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Rock County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 06-13 through 06-15.

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

Rock County's written responses to the significant deficiencies, material weaknesses, and legal compliance findings identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 13, 2007

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

Board of County Commissioners
Rock County

Compliance

We have audited the compliance of Rock County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. Rock County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Rock County's financial statements include the operations of the Rock County Rural Water District component unit, which did not expend federal awards during the year ended December 31, 2006. Our audit, described below, did not include the operations of the Rock County Rural Water District because the Rural Water District was audited by other auditors.

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

compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Rock County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of Rock County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 06-12 to be a significant deficiency.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County as of and for the year ended December 31, 2006, and have issued our report thereon dated September 13, 2007. We did not audit the financial statements of the Rock County Rural Water District, which represents the amounts shown as the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed here, insofar as it relates to amounts included for the Rock County Rural Water District component unit, is based solely on the report of the other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 13, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**ROCK COUNTY
LIVERNE, MINNESOTA**

Schedule 8

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	\$ <u>1,906</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 232,138
Federal Transit Planning Grants	20.505	2,360
Formula Grants for Other Than Urbanized Areas	20.509	<u>53,452</u>
Total U.S. Department of Agriculture		\$ <u>287,950</u>
U.S. Election Assistance Commission		
Passed Through Office of the Minnesota Secretary of State Help America Vote Act Requirements Payments	90.401	\$ <u>169,426</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 3,635
Temporary Assistance for Needy Families (TANF)	93.558	34,179
Child Care and Development Block Grant	93.575	3,905
Child Welfare Services - State Grants	93.645	2,596
Foster Care - Title IV-E	93.658	29,417
Social Services Block Grant	93.667	73,210
Chafee Foster Care Independence Program	93.674	2,224
Block Grants for Community Mental Health Services	93.958	<u>1,552</u>
Total U.S. Department of Health and Human Services		\$ <u>150,718</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program	97.004	\$ 102,195
Emergency Management Performance Grants	97.042	<u>9,216</u>
Total U.S. Department of Homeland Security		\$ <u>111,411</u>
Total Federal Awards		\$ <u>721,411</u>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Rock County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2006, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.