STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

ROCK COUNTY
LUVERNE, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2009

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

ROCK COUNTY
LUVERNE, MINNESOTA

For the Year Ended December 31, 2009

Audit Practice Division
Office of the State Auditor
State of Minnesota

This page was left blank intentionally.

ROCK COUNTY
LUVERNE, MINNESOTA

TABLE OF CONTENTS

ROCK COUNTY
LUVERNE, MINNESOTA

TABLE OF CONTENTS

Introductory Section

This page was left blank intentionally.

ROCK COUNTY
LUVERNE, MINNESOTA

ORGANIZATION SCHEDULE
2009

Office	Name	Term Expires
Commissioners		
1st District	Kenneth Hoime*	January 2013
2nd District	Richard Bakken	January 2011
3rd District	Ronald Boyenga	January 2013
4th District	Robert Jarchow	January 2011
5th District	Jane Wildung Lanphere**	January 2013
Officers		
Elected		
Attorney	Donald R. Klosterbuer	January 2011
Auditor/Treasurer	Gloria F. Rolfs	January 2011
Sheriff	Evan Verbrugge	January 2011
Appointed		
Administrator	Kyle J. Oldre	Indefinite
Family Services Director	Randy Ehlers	Indefinite
Highway Engineer	Mark Sehr	Indefinite
Land Records Director	Thomas Houselog	Indefinite

*Chair 2009
**Chair 2010

This page was left blank intentionally.

Financial Section

This page was left blank intentionally.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

REBECCA OTTO
STATE AUDITOR

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

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Rock County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Rock County Rural Water District, which represents the amounts shown as the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed here, insofar as it relates to amounts included for the Rock County Rural Water District component unit, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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, 2009, 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.

As discussed in Note 4.C. to the financial statements, during the year ended December 31, 2009, the County adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Rock County has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

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

In accordance with *Government Auditing Standards,* we have also issued our report dated December 3, 2010, 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

December 3, 2010

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page was left blank intentionally.

ROCK COUNTY
LUVERNE, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	Primary Government Governmental Activities	Rock County Rural Water District Component Unit
Assets		
Cash and pooled investments	$ 4,674,056	$ 81,241
Investments	2,588,500	1,070,710
Investments - restricted	-	1,404,773
Receivables - net	1,615,196	25,115
Receivables - restricted	-	512,442
Inventories	135,394	89,281
Prepaid items	21,319	1,270
Deferred debt issuance costs	17,141	-
Capital assets		
Non-depreciable capital assets	2,511,266	772,062
Depreciable capital assets - net of accumulated depreciation	43,127,102	3,664,497
Total Assets	**$ 54,689,974**	**$ 7,621,391**
Liabilities		
Accounts payable and other current liabilities	$ 1,151,298	$ 85,279
Accrued interest payable	27,367	7,818
Customer deposits	8,000	-
Unearned revenue	301,571	-
Long-term liabilities		
Due within one year	161,836	103,000
Due in more than one year	2,135,866	1,209,000
Total Liabilities	**$ 3,785,938**	**$ 1,405,097**
Net Assets		
Invested in capital assets - net of related debt	$ 43,899,830	$ 3,116,741
Restricted for		
Public safety	141,793	-
Highways and streets	663,431	-
Debt service	128,846	-
Other purposes	140,271	-
Unrestricted	5,929,865	3,099,553
Total Net Assets	**$ 50,904,036**	**$ 6,216,294**

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

ROCK COUNTY
LUVERNE, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Primary Government		
Governmental activities		
General government	$ 2,217,417	$ 540,290
Public safety	1,898,978	869,482
Highways and streets	3,777,124	88,954
Sanitation	605,828	297,778
Human services	2,600,330	187,811
Health	164,976	-
Culture and recreation	390,815	-
Conservation of natural resources	392,239	257,006
Economic development	1,400	-
Interest	72,878	-
Total Governmental Activities	**$ 12,121,985**	**$ 2,241,321**
Component Unit		
Rock County Rural Water District	**$ 704,096**	**$ 620,147**

General Revenues
Property taxes
Gravel taxes
Other taxes
Grants and contributions not restricted to specific programs
Interest income
Miscellaneous

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

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

EXHIBIT 2

Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Rock County Rural Water District Component Unit
$ 178,542	$ 2,367,702	$ 869,117	
224,607	-	(804,889)	
3,049,122	2,291,075	1,652,027	
55,475	-	(252,575)	
1,253,843	-	(1,158,676)	
-	-	(164,976)	
17,710	-	(373,105)	
206,267	-	71,034	
3,750	-	2,350	
-	-	(72,878)	
$ 4,989,316	**$ 4,658,777**	**$ (232,571)**	
$ -	**$ 129,143**		**$ 45,194**
		$ 3,388,840	$ -
		18,195	-
		10,539	-
		1,224,470	-
		134,835	37,273
		102,715	-
		$ 4,879,594	**$ 37,273**
		$ 4,647,023	**$ 82,467**
		46,257,013	**6,133,827**
		$ 50,904,036	**$ 6,216,294**

This page was left blank intentionally.

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENTAL FUNDS

ROCK COUNTY
LUVERNE, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	General	Public Works	Family Services
Assets			
Cash and pooled investments	$ 1,673,618	$ 619,209	$ 1,040,545
Petty cash and change funds	1,475	75	-
Investments	1,720,500	860,000	-
Taxes receivable			
Prior	15,677	4,518	6,461
Special assessments receivable			
Prior	-	-	-
Accounts receivable	23,736	4,139	22,372
Accrued interest receivable	10,231	6,224	-
Loans receivable	1,000	-	-
Due from other funds	9,177	-	136
Due from other governments	76,987	1,243,020	112,657
Inventories	-	135,394	-
Prepaid items	13,969	1,600	5,750
Total Assets	**$ 3,546,370**	**$ 2,874,179**	**$ 1,187,921**

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

EXHIBIT 3

Land Management	Ditch	Debt Service	Capital Projects	Total
$ 973,915	$ 3,045	$ 148,742	$ 213,432	$ 4,672,506
-	-	-	-	1,550
8,000	-	-	-	2,588,500
147	-	801	-	27,604
9,876	-	-	-	9,876
-	-	-	-	50,247
25	-	-	-	16,480
75,000	-	-	-	76,000
-	-	-	-	9,313
2,325	-	-	-	1,434,989
-	-	-	-	135,394
-	-	-	-	21,319
$ 1,069,288	**$ 3,045**	**$ 149,543**	**$ 213,432**	**$ 9,043,778**

ROCK COUNTY
LUVERNE, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	General	Public Works	Family Services
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 59,101	$ 86,415	$ 62,305
Salaries payable	79,719	37,914	37,738
Contracts payable	69,815	411,896	-
Due to other funds	136	360	8,457
Due to other governments	48,100	148,453	91,677
Deferred revenue - unavailable	25,613	1,253,709	6,461
Deferred revenue - unearned	2,929	184,903	-
Customer deposits	-	-	-
Total Liabilities	**$ 285,413**	**$ 2,123,650**	**$ 206,638**
Fund Balances			
Reserved for			
Inventories	$ -	$ 135,394	$ -
Loans receivable	1,000	-	-
Prepaid items	13,969	1,600	5,750
Missing heirs	3,549	-	-
Law library	4,331	-	-
Recorder's technology fund	68,913	-	-
Recorder's compliance fund	63,488	-	-
Enhanced 911	112,706	-	-
Sheriff's contingency	1,983	-	-
Sheriff's forfeited property	27,104	-	-
Highway allotments	-	13,241	-
Unreserved			
Designated for cash flows	1,849,355	439,474	842,453
Designated for compensated absences	227,670	160,820	133,080
Designated for capital improvements	762,197	-	-
Designated for elections	26,098	-	-
Undesignated	98,594	-	-
Total Fund Balances	**$ 3,260,957**	**$ 750,529**	**$ 981,283**
Total Liabilities and Fund Balances	**$ 3,546,370**	**$ 2,874,179**	**$ 1,187,921**

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

EXHIBIT 3
(Continued)

Land Management	Ditch	Debt Service	Capital Projects	Total
$ 6,952	$ 643	$ -	$ -	$ 215,416
10,570	-	-	-	165,941
-	-	-	-	481,711
360	-	-	-	9,313
-	-	-	-	288,230
10,048	-	801	-	1,296,632
113,739	-	-	-	301,571
8,000	-	-	-	8,000
$ 149,669	**$ 643**	**$ 801**	**$ -**	**$ 2,766,814**
$ -	$ -	$ -	$ -	$ 135,394
75,000	-	-	-	76,000
-	-	-	-	21,319
-	-	-	-	3,549
-	-	-	-	4,331
-	-	-	-	68,913
-	-	-	-	63,488
-	-	-	-	112,706
-	-	-	-	1,983
-	-	-	-	27,104
-	-	-	-	13,241
232,836	-	-	-	3,364,118
16,944	-	-	-	538,514
-	-	-	-	762,197
-	-	-	-	26,098
594,839	2,402	148,742	213,432	1,058,009
$ 919,619	**$ 2,402**	**$ 148,742**	**$ 213,432**	**$ 6,276,964**
$ 1,069,288	**$ 3,045**	**$ 149,543**	**$ 213,432**	**$ 9,043,778**

This page was left blank intentionally.

ROCK COUNTY
LUVERNE, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES DECEMBER 31, 2009

Fund balance - total governmental funds (Exhibit 3)		**$ 6,276,964**
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.		45,638,368
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,296,632
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	$ (1,575,000)	
Unamortized bond discount	24,246	
Deferred debt issuance costs	17,141	
Capital leases payable	(163,538)	
Compensated absences	(538,513)	
Net OPEB obligation	(44,897)	
Accrued interest payable	(27,367)	(2,307,928)
Net Assets of Governmental Activities (Exhibit 1)		**$ 50,904,036**

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

ROCK COUNTY
LUVERNE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	General	Public Works	Family Services
Revenues			
Taxes	$ 1,930,548	$ 564,155	$ 803,255
Special assessments	-	-	-
Licenses and permits	2,865	-	-
Intergovernmental	1,278,251	6,185,188	1,546,432
Charges for services	1,218,298	363,466	55,279
Fines and forfeits	23,714	-	-
Gifts and contributions	66,210	-	-
Investment earnings	109,957	30,150	-
Miscellaneous	278,559	7,610	132,532
Total Revenues	**$ 4,908,402**	**$ 7,150,569**	**$ 2,537,498**
Expenditures			
Current			
General government	$ 2,192,857	$ -	$ -
Public safety	1,797,027	-	-
Highways and streets	-	7,214,080	-
Sanitation	-	340,364	-
Human services	-	-	2,586,855
Health	16,800	-	-
Culture and recreation	388,986	-	-
Conservation of natural resources	139,782	-	-
Economic development	1,400	-	-
Intergovernmental	217,042	216,739	-
Debt service			
Principal	36,625	-	-
Interest	8,907	-	-
Administrative (fiscal) charges	-	-	-
Total Expenditures	**$ 4,799,426**	**$ 7,771,183**	**$ 2,586,855**
Excess of Revenues Over (Under) Expenditures	**$ 108,976**	**$ (620,614)**	**$ (49,357)**
Other Financing Sources (Uses)			
Transfers in	$ 60,000	$ 80,986	$ -
Transfers out	(150,721)	(60,000)	-
Proceeds from loan collections	80	-	-
Proceeds from the sale of assets	5,669	7,677	-
Total Other Financing Sources (Uses)	**$ (84,972)**	**$ 28,663**	**$ -**
Net Change in Fund Balance	**$ 24,004**	**$ (591,951)**	**$ (49,357)**
Fund Balance - January 1	**3,236,953**	**1,335,549**	**1,030,640**
Increase (decrease) in reserved for inventories	**-**	**6,931**	**-**
Fund Balance - December 31	**$ 3,260,957**	**$ 750,529**	**$ 981,283**

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

EXHIBIT 5

Land Management	Ditch	Debt Service	Capital Projects	Total
$ 17,098	$ -	$ 100,511	$ -	$ 3,415,567
207,289	-	-	-	207,289
21,874	-	-	-	24,739
270,372	-	36,134	495,000	9,811,377
1,274	-	-	-	1,638,317
-	-	-	-	23,714
-	-	-	-	66,210
4,347	-	-	1,452	145,906
15,930	-	-	-	434,631
$ 538,184	**$ -**	**$ 136,645**	**$ 496,452**	**$ 15,767,750**
$ 34,144	$ -	$ -	$ 546,002	$ 2,773,003
-	-	-	-	1,797,027
-	-	-	-	7,214,080
311,233	-	-	-	651,597
-	-	-	-	2,586,855
-	-	-	-	16,800
-	-	-	-	388,986
202,585	48,489	-	-	390,856
-	-	-	-	1,400
-	-	-	-	433,781
-	-	65,000	-	101,625
-	-	63,098	-	72,005
-	-	425	-	425
$ 547,962	**$ 48,489**	**$ 128,523**	**$ 546,002**	**$ 16,428,440**
$ (9,778)	**$ (48,489)**	**$ 8,122**	**$ (49,550)**	**$ (660,690)**
$ -	$ 90,000	$ 60,721	$ -	$ 291,707
(80,986)	-	-	-	(291,707)
-	-	-	-	80
-	-	-	-	13,346
$ (80,986)	**$ 90,000**	**$ 60,721**	**$ -**	**$ 13,426**
$ (90,764)	**$ 41,511**	**$ 68,843**	**$ (49,550)**	**$ (647,264)**
1,010,383	**(39,109)**	**79,899**	**262,982**	**6,917,297**
-	**-**	**-**	**-**	**6,931**
$ 919,619	**$ 2,402**	**$ 148,742**	**$ 213,432**	**$ 6,276,964**

ROCK COUNTY
LUVERNE, MINNESOTA

EXHIBIT 6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2009

Net change in fund balance - total governmental funds (Exhibit 5)			**$**	**(647,264)**
Amounts reported for governmental activities in the statement of activities are different because:				
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.				
Deferred revenue - December 31	$	1,296,632		
Deferred revenue - January 1		(2,117,502)		(820,870)
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Contributions of capital assets are reported in the statement of activities, but not in the funds. In the statement of activities, the net book value of assets disposed of is expensed, while not reported in the funds.				
Expenditures for general capital assets and infrastructure	$	5,899,133		
Capital contribution		1,697,838		
Net book value of assets disposed of		(280,148)		
Current year depreciation		(1,269,443)		6,047,380
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	$	65,000		
Capital leases payment		36,625		101,625
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	$	4,566		
Change in net OPEB obligation		(44,897)		
Change in accrued interest payable		2,166		
Discount and bond issuance costs amortization		(2,614)		
Change in inventories		6,931		(33,848)
Change in Net Assets of Governmental Activities (Exhibit 2)			**$**	**4,647,023**

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

FIDUCIARY FUNDS

This page was left blank intentionally.

ROCK COUNTY
LUVERNE, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2009

Assets		
Cash and pooled investments	**$**	**292,481**
Liabilities		
Accounts payable	$	238,812
Due to other governments		53,669
Total Liabilities	**$**	**292,481**

This page was left blank intentionally.

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

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

1. Summary of Significant Accounting Policies

   A. Financial Reporting Entity

      Component Unit (Continued)

      Water District was established in 1978 to provide water to rural residents of Rock County. Financial statements of the Rock County Rural Water District can be obtained at 541 - 150th Avenue, Luverne, Minnesota 56156.

      Joint Ventures

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

   B. Basic Financial Statements

      1. Government-Wide Statements

         The government-wide financial statements (the statement of net 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;

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 all of its governmental funds as major funds.

The County reports the following major governmental funds:

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

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

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

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

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

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.

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

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, 2009, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2009 were $109,957 for the County.

3. Receivables and Payables

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

All 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.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out 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.

5. Restricted Assets

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items) are reported in the governmental activities column on the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

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

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

7. Compensated Absences

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

1. Summary of Significant Accounting Policies

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

8. Deferred Revenue

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

9. Long-Term Obligations

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

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

10. Fund Equity

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

1. Summary of Significant Accounting Policies

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

11. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

Expenditures exceeded budgets in the following funds:

Fund	Expenditures	Budget	Excess
General Fund	$ 4,799,426	$ 4,592,905	$ 206,521
Special Revenue Funds			
Public Works	7,771,183	2,225,218	5,545,965
Land Management	547,962	513,044	34,918

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental activities	
Cash and pooled investments	$ 4,674,056
Investments	2,588,500
Fiduciary net assets	
Cash and pooled investments	292,481
Total Cash and Investments	$ 7,555,037

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Petty cash and change funds	$	1,550
Checking		4,800,267
Money market savings		117,322
Certificates of deposit		2,588,500
Social Welfare Fund checking account		47,398
Total Deposits and Investments	$	7,555,037

a. Deposits

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

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

Custodial Credit Risk

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

As of December 31, 2009, the County's deposits in banks were entirely covered by federal depository insurance or by collateral in accordance with Minnesota statutes.

b. Investments

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

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

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) bankers' acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31 2009, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

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

2. Receivables

Receivables as of December 31, 2009, for the County's governmental activities, net of the applicable allowances for uncollectible accounts, are as follows:

	Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	$ 27,604	$ -
Special assessments	9,876	-
Accounts	50,247	-
Loans receivable	76,000	70,000
Interest	16,480	-
Due from other governments	1,434,989	-
Total Governmental Activities	$ 1,615,196	$ 70,000

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Loans Receivable

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

Luverne Optimist Hockey Club	$	2,000
Rock County Opportunities, Inc.		220,000
Loans receivable, January 1, 2009	$	222,000
Payments received during the year		(146,000)
Loans Receivable	$	76,000

The loan receivable in the General Fund is $1,000 from the Luverne Optimist Hockey Club. The Land Management Special Revenue Fund has a $75,000 loan receivable from Rock County Opportunities, Inc., from a loan made in 2008.

4. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 214,024	$ -	$ 20,163	$ 193,861
Right-of-way	985,921	-	-	985,921
Construction in progress	2,767,317	731,484	2,767,317	731,484
Works of art and historical treasures	600,000	-	-	600,000
Total capital assets not depreciated	$ 4,567,262	$ 731,484	$ 2,787,480	$ 2,511,266
Capital assets depreciated				
Buildings	$ 5,559,982	$ 5,058,283	$ 361,567	$ 10,256,698
Land improvements	209,511	33,401	-	242,912
Machinery, furniture, and equipment	5,399,292	367,587	140,520	5,626,359
Infrastructure	38,895,773	4,173,533	-	43,069,306
Total capital assets depreciated	$ 50,064,558	$ 9,632,804	$ 502,087	$ 59,195,275

3. Detailed Notes on All Funds

A. Assets

4. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	$ 1,921,044	$ 99,360	$ 219,776	$ 1,800,628
Land improvements	13,966	9,639	-	23,605
Machinery, furniture, and equipment	2,636,573	299,058	22,326	2,913,305
Infrastructure	10,469,249	861,386	-	11,330,635
Total accumulated depreciation	$ 15,040,832	$ 1,269,443	$ 242,102	$ 16,068,173
Total capital assets depreciated, net	$ 35,023,726	$ 8,363,361	$ 259,985	$ 43,127,102
Capital Assets, Net	$ 39,590,988	$ 9,094,845	$ 3,047,465	$ 45,638,368

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

Governmental Activities	
General government	$ 142,086
Public safety	49,115
Highways and streets (including infrastructure)	1,013,514
Sanitation	34,316
Human services	2,210
Culture and recreation	28,202
Total Depreciation Expense - Governmental Activities	$ 1,269,443

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2009, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Public Works	$ 360
General	Family Services	8,457
General	Land Management	360
Family Services	General	136
Total Due To/From Other Funds		$ 9,313

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2009, consisted of the following:

Transfer to General Fund from Public Works Special Revenue Fund	$	60,000	Provide funding
Transfer to Public Works Special Revenue Fund from Land Management Special Revenue Fund		80,986	Provide funding
Transfer to Ditch Special Revenue Fund from General Fund		90,000	Provide funding
Transfer to Debt Service Fund from General Fund		60,721	Provide funding
Total Interfund Transfers	$	291,707	

C. Liabilities

1. Payables

Payables at December 31, 2009, were as follows:

		Primary Government
Accounts	$	215,416
Salaries		165,941
Contracts		481,711
Due to other governments		288,230
Total Payables	$	1,151,298

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Leases

Capital Leases

Rock County has a lease agreement that qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. It consists of the following at December 31, 2009:

Capital Lease	Final Maturity	Installment Amount	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2009
HVAC system	2013	$45,382	4.45	$ 361,168	$ 163,538

The gross amounts of assets included in the statement of net assets recorded under capital leases are $887,113, and the related accumulated depreciation included in the general government accumulated depreciation is $274,833.

Payments on the HVAC system capital lease are made from the General Fund. The future lease obligations and the net present value of these minimum lease payments as of December 31, 2009, were as follows:

Year Ending December 31	Amount
2010	$ 45,532
2011	45,532
2012	45,532
2013	45,532
Total minimum lease payments	$ 182,128
Less: amount representing interest	(18,590)
Present Value of Future Minimum Lease Payments	$ 163,538

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2009
General obligation notes					
2005 G.O. Capital Improvement Bonds	2026	$45,000 - $125,000	2.90 - 4.30	$ 1,750,000	$ 1,575,000
Less: discounts				-	(24,246)
Total General Obligation Bonds, Net				$ 1,750,000	$ 1,550,754

4. Debt Service Requirements

Debt service requirements at December 31, 2009, were as follows:

Year Ending	General Obligation Bonds		Capital Leases	
December 31	Principal	Interest	Principal	Interest
2010	$ 70,000	$ 60,917	$ 38,254	$ 7,278
2011	70,000	58,573	39,957	5,575
2012	75,000	56,087	41,735	3,797
2013	75,000	53,463	43,592	1,940
2014	80,000	50,650	-	-
2015 - 2019	435,000	204,896	-	-
2020 - 2024	525,000	109,021	-	-
2025 - 2026	245,000	10,643	-	-
Total	$ 1,575,000	$ 604,250	$ 163,538	$ 18,590

3. Detailed Notes on All Funds

   C. Liabilities (Continued)

      5. Changes in Long-Term Liabilities

         Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds payable	$ 1,640,000	$ -	$ 65,000	$ 1,575,000	$ 70,000
Less: deferred amounts for issuance discounts	(25,777)	-	(1,531)	(24,246)	-
Total bonds payable	$ 1,614,223	$ -	$ 63,469	$ 1,550,754	$ 70,000
Capital leases	200,163	-	36,625	163,538	38,254
Compensated absences	543,079	-	4,566	538,513	53,582
Net OPEB obligation	-	44,897	-	44,897	-
Governmental Activities Long-Term Liabilities	$ 2,357,465	$ 44,897	$ 104,660	$ 2,297,702	$ 161,836

4. Pension Plans and Other Postemployment Benefits

   A. Defined Benefit Plans

      Plan Description

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

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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. Normal retirement age is 55 for Public Employees Police and Fire Fund members and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

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. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. Rock 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 are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.4 percent.

Rock County is required to contribute the following percentages of annual covered payroll in 2009:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.75
Public Employees Police and Fire Fund	14.10

Rock County's contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	2009	2008	2007
Public Employees Retirement Fund	$ 242,186	$ 219,163	$ 203,272
Public Employees Police and Fire Fund	91,604	92,707	75,856

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

4. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by Rock County during the year ended December 31, 2009, were:

	Employee	Employer
Contribution amount	$ 1,867	$ 1,867
Percentage of covered payroll	5.00%	5.00%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

In 2009, Rock County implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

This statement required the County to calculate and record a net OPEB obligation at December 31, 2009. The net OPEB obligation is, in general, the cumulative difference between the actuarial required contribution and the actual contributions since January 1, 2009.

Plan Description

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

Funding Policy

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

The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2009, there were approximately 93 participants in the plan, including 3 retirees. The implicit rate subsidy amount was determined by an actuary study to be $32,310 for 2009.

Annual OPEB Cost and Net OPEB Obligation

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

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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

ARC	$ 67,270
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost (expense)	$ 67,270
Contributions made	(22,373)
Increase in net OPEB obligation	$ 44,897
Net OPEB Obligation - Beginning of Year	-
Net OPEB Obligation - End of Year	$ 44,897

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended December 31, 2009, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2009	$ 67,270	$ 22,373	33.26%	$ 44,897

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was $513,365, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $513,365. The covered payroll (annual payroll of active employees covered by the plan) was $3,800,699, and the ratio of the UAAL to the covered payroll was 13.5 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

4. Pension Plans and Other Postemployment Benefits

   C. Other Postemployment Benefits (OPEB)

      Funded Status and Funding Progress (Continued)

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

Actuarial Methods and Assumptions

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

In the January 1, 2009, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Rock County's implicit rate of return on the General Fund.

The annual health care cost trend is 9.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 8 years. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2009, was 28 years.

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 Intergovernmental Trust (MCIT), formerly the Minnesota Counties Insurance Trust. 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.

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 $430,000 per claim in 2009 and $450,000 per claim in 2010. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

6. Summary of Significant Contingencies and Other Items

   A. Subsequent events

      On May 4, 2010, Rock County issued General Obligation Ditch Bonds, Series 2010A, in the amount of $750,000 to finance improvements on Judicial Ditch 2.

   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.

      Lincoln-Pipestone Rural Water System

      At December 31, 2009, Lincoln-Pipestone Rural Water System had $36,989,000 of general obligation bonds outstanding through 2034. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

      The debt is paid by the Lincoln-Pipestone Rural Water System from special assessments levied against property specially benefited by the applicable expansion, extension, or enlargement of the system and from the net revenues from time to time received in excess of the current costs of operating and maintaining the system. The bonds are general obligations of the issuing counties for which their full faith, credit, and unlimited taxing powers are pledged. The participating counties (Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine) have adopted board resolutions and have signed joint powers agreements to define their liability for a proportional share of the debt should the issuing counties make any debt service payments. In such a situation, each of the other counties will

6. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities

Lincoln-Pipestone Rural Water System (Continued)

promptly reimburse the paying counties in proportion to the percentage of Lincoln-Pipestone Rural Water System customers located in such county, in accordance with Minn. Stat. § 116A.24, subd. 3. The outstanding bonds are reported as liabilities in the annual financial statements of the Lincoln-Pipestone Rural Water System and are not reported as liabilities in the financial statements of any of the ten participating counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

In 2010, Nobles County issued a general obligation bond for $800,000 on behalf of the Lincoln-Pipestone Rural Water System to finance the water expansion and internal improvements necessary for the delivery of water to its customers. Each of the participating counties adopted a board resolution to approve an updated joint powers agreement to guarantee the payment of the bond.

C. Joint Ventures

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

Lincoln-Pipestone Rural Water System

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

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

Bonds were issued by Lincoln County and Yellow Medicine 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, 2009, were $36,989,000.

The Lincoln-Pipestone Rural Water System's 2009 financial report shows total net assets of $37,083,055, including unrestricted net assets of $26,538,044. The decrease in net assets for the year ended December 31, 2009, was $976,969.

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

Nobles-Rock Community Health Services

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

The Nobles-Rock Community Health Services is headquartered in Worthington, Minnesota, with offices at the county seats of the member counties. Financing is provided by state grants, appropriations from member counties, and charges for services. The County's contribution for December 31, 2009, was $145,966.

Financial data of the Health Services for the year ended December 31, 2009, are:

Total Assets	$	788,779
Total Liabilities		302,999
Total Net Assets		485,780
Total Revenues		1,519,343
Total Expenses		1,376,676
Increase (Decrease) in Net Assets		142,667

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Nobles-Rock Community Health Services (Continued)

The Health Services' long-term debt consists of compensated absences of $83,997.

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

Rock-Nobles Community Corrections

Rock County participates with Nobles County in a joint venture to provide community corrections services. Rock-Nobles Community Corrections develops and implements humane and effective methods of prevention, control, and rehabilitation of offenders.

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

Rock-Nobles Community Corrections is headquartered in Worthington, Minnesota, with offices at the county seats of the member counties. Financing is provided by state grants and appropriations from member counties. Rock County's contributions to Rock-Nobles Community Corrections for the year ended December 31, 2009, totaled $71,076.

The following is a summary of Rock-Nobles Community Corrections' annual financial report for the year ended December 31, 2009:

Total Assets	$	347,582
Total Liabilities		87,232
Total Fund Equity		260,350
Total Revenues		702,874
Total Expenditures/Expenses		707,352
Increase (Decrease) in Fund Equity		(4,478)

Rock-Nobles Community Corrections' long-term debt consists of employees' compensated absences payable of $68,411 at December 31, 2009.

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Rock-Nobles Community Corrections (Continued)

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, Rock County entered into a joint powers agreement with Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Pipestone, Redwood, Renville, Swift, and Yellow Medicine Counties; and Lincoln, Lyon, and Murray Counties represented by the Lincoln, Lyon, and Murray Human Services Board, 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.

The following is a summary of the Board's annual financial report for the year ended December 31, 2009:

Total Assets	$ 2,304,308
Total Liabilities	327,637
Total Equity	1,976,671
Total Revenues	4,271,686
Total Expenditures	4,327,451
Net Increase to Equity	(55,765)

The Board reported no long-term obligations at December 31, 2009.

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.

6. Summary of Significant Contingencies and Other Items

   C. Joint Ventures (Continued)

   Southwest Minnesota Regional Radio Board

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

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

   During 2009, Rock County did not make any contributions to the Joint Powers Board.

   Retired and Senior Volunteer Program of Southwest Minnesota (SW-RSVP)

   Rock County, in conjunction with five counties and the Southwest Regional Development Commission, pursuant to Minn. Stat. § 471.59, have formed an agreement to coordinate the delivery of volunteer services to non-profit community service entities and local units of government meeting the guidelines for receiving volunteer services under the authority of the counties. The Board comprises one voting member from each participating County and one voting member of the SW-RSVP Advisory Council. In 2009, the County did not make any contributions to the SW-RSVP.

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

   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-Pipestone Family Service Collaborative

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

7. Component Unit Disclosures

   A. Summary of Significant Accounting Policies

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

   Reporting Entity

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

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

The Rock County Rural Water District presents as an enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Deposits and Investments

The cash balances are invested by the District for the purpose of increasing earnings through investment activities. Investments are reported at fair value at December 31, 2009, based on market prices. Pooled investment earnings for 2009 were $37,273.

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

Rock County is holding short-term investments of the District. These certificates of deposit are for future expenditures on the distribution system and any other related expenditures. The total held by the County for the District was $1,404,773 at December 31.

7. Component Unit Disclosures (Continued)

B. Detailed Notes

1. Assets

Deposits and Investments

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

Cash and pooled investments	$	81,241
Investments		1,070,710
Investments - restricted		1,404,773
Total Deposits and Investments	$	2,556,724

Petty cash and change funds	$	75
Deposits - held by the District		81,166
Deposits - held by the County		159,773
Certificates of deposit - held by the District		875,276
Certificates of deposit - held by the County		1,245,000
MAGIC Fund		195,434
Total Deposits and Investments	$	2,556,724

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. As of December 31, 2009, none of the Rural Water District's bank balance of $961,976 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized with securities held by the pledging financial institution's trust department not in the Rural Water District's name	$	961,976

7. Component Unit Disclosures

B. Detailed Notes

1. Assets (Continued)

Receivables

Receivables as of December 31, 2009, for the Rock County Rural Water District's governmental activities follow:

Taxes	$	180
Accounts		2,530
Interest		22,405
Total Governmental Activities	$	25,115

Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land and right-of-way	$ 118,235	$ -	$ -	$ 118,235
Lewis and Clark project	593,970	38,153	-	632,123
Expansion project	21,704	-	-	21,704
Total capital assets not depreciated	$ 733,909	$ 38,153	$ -	$ 772,062
Capital assets depreciated				
Buildings and pumps	$ 2,843,333	$ 41,747	$ -	$ 2,885,080
Machinery, furniture, and equipment	154,247	20,273	-	174,520
Infrastructure - distribution system	4,001,804	13,197	-	4,015,001
Total capital assets depreciated	$ 6,999,384	$ 75,217	$ -	$ 7,074,601
Less: accumulated depreciation for				
Buildings and pumps	$ 1,306,223	$ 77,562	$ -	$ 1,383,785
Machinery, furniture, and equipment	142,960	8,052	-	151,012
Infrastructure - distribution system	1,772,732	102,575	-	1,875,307
Total accumulated depreciation	$ 3,221,915	$ 188,189	$ -	$ 3,410,104
Total capital assets depreciated, net	$ 3,777,469	$ (112,972)	$ -	$ 3,664,497
Capital Assets, Net	$ 4,511,378	$ (74,819)	$ -	$ 4,436,559

7. Component Unit Disclosures

   B. Detailed Notes

      1. Assets

         Capital Assets (Continued)

         Depreciation expense of $188,189 was charged to the Rural Water District function.

      2. Liabilities

         Payables

         Payables at December 31, 2009, were as follows:

Accounts	$	7,837
Salaries		77,262
Other		180
Total Payables	$	85,279

         Long-Term Debt

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

7. Component Unit Disclosures

B. Detailed Notes on All Funds

2. Liabilities

Long-Term Debt (Continued)

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

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2009
General obligation bonds and notes					
2000 G.O. Revenue Bonds	2019	$14,000 - $89,000	1.79	$ 1,460,000	$ 821,000
2007 G.O. Revenue Note	2026	$16,000 - $31,000	1.02	533,000	491,000
Total				$ 1,993,000	$ 1,312,000

Debt Service Requirements

Debt service requirements at December 31, 2009, were as follows:

Year Ending December 31	General Obligation Revenue Bond		General Obligation Revenue Note	
	Principal	Interest	Principal	Interest
2010	$ 76,000	$ 14,696	$ 27,000	$ 5,008
2011	77,000	13,336	27,000	4,733
2012	78,000	11,957	27,000	4,457
2013	80,000	10,561	27,000	4,182
2014	81,000	9,129	28,000	3,907
2015 - 2019	429,000	23,305	143,000	15,218
2020 - 2024	-	-	150,000	7,794
2025 - 2026	-	-	62,000	948
Total	$ 821,000	$ 82,984	$ 491,000	$ 46,247

7. Component Unit Disclosures

B. Detailed Notes on All Funds

2. Liabilities (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. revenue bond	$ 895,000	$ -	$ 74,000	$ 821,000	$ 76,000
G.O. revenue note	517,000	-	26,000	491,000	27,000
Long-Term Liabilities	$ 1,412,000	$ -	$ 100,000	$ 1,312,000	$ 103,000

C. Pension Plan

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

The Rock County Rural Water District's contributions to the Public Employees Retirement Fund for the years ended December 31, 2009, 2008, and 2007, were $14,085, $11,833, and $10,686, respectively. These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

This page was left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

ROCK COUNTY
LUVERNE, MINNESOTA

Schedule 1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 2,177,121	$ 2,177,121	$ 1,930,548	$ (246,573)
Licenses and permits	615	615	2,865	2,250
Intergovernmental	869,880	869,880	1,278,251	408,371
Charges for services	1,148,714	1,148,714	1,218,298	69,584
Fines and forfeits	20,000	20,000	23,714	3,714
Gifts and contributions	-	-	66,210	66,210
Investment earnings	125,000	125,000	109,957	(15,043)
Miscellaneous	189,575	189,575	278,559	88,984
Total Revenues	**$ 4,530,905**	**$ 4,530,905**	**$ 4,908,402**	**$ 377,497**
Expenditures				
Current				
General government				
Commissioners	$ 222,083	$ 197,581	$ 176,702	$ 20,879
Courts	-	-	4,860	(4,860)
Law library	-	-	9,596	(9,596)
County administration	189,076	189,076	188,560	516
Auditor/Treasurer	260,025	260,025	261,979	(1,954)
License center	98,161	98,161	98,686	(525)
Elections	32,700	32,700	6,768	25,932
Accounting and auditing	40,000	40,000	48,116	(8,116)
Data processing	180,931	180,931	142,937	37,994
Attorney	148,178	148,178	148,180	(2)
Land records	374,110	374,110	360,785	13,325
Buildings and plant	178,054	178,054	176,099	1,955
Veterans service officer	58,129	58,129	52,605	5,524
Transportation	345,280	345,280	459,982	(114,702)
Other general government	-	-	57,002	(57,002)
Total general government	**$ 2,126,727**	**$ 2,102,225**	**$ 2,192,857**	**$ (90,632)**
Public safety				
Sheriff	$ 1,633,809	$ 1,658,311	$ 1,670,717	$ (12,406)
Sheriff's contingency	-	-	758	(758)
Coroner	10,000	10,000	4,756	5,244
Regional dispatch	-	-	18,676	(18,676)
E-911 system	-	-	21,944	(21,944)
Prisoner care	119,000	119,000	78,790	40,210
Emergency services	1,508	1,508	1,386	122
Total public safety	**$ 1,764,317**	**$ 1,788,819**	**$ 1,797,027**	**$ (8,208)**

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

ROCK COUNTY
LUVERNE, MINNESOTA

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Health				
Community health	$ -	$ -	$ 16,800	$ (16,800)
Culture and recreation				
Historical society	$ 10,000	$ 10,000	$ 10,000	$ -
Minnesota trails	-	-	17,710	(17,710)
Community pool and fitness center	-	-	26,156	(26,156)
Senior citizens	6,204	6,204	4,577	1,627
Library	266,817	266,817	287,018	(20,201)
Heritage museum	38,475	38,475	40,525	(2,050)
Other	3,000	3,000	3,000	-
Total culture and recreation	**$ 324,496**	**$ 324,496**	**$ 388,986**	**$ (64,490)**
Conservation of natural resources				
Extension	$ 127,323	$ 127,323	$ 123,782	$ 3,541
Agricultural society	16,000	16,000	16,000	-
Total conservation of natural resources	**$ 143,323**	**$ 143,323**	**$ 139,782**	**$ 3,541**
Economic development				
Tourism	**$ 1,400**	**$ 1,400**	**$ 1,400**	**$ -**
Intergovernmental				
Public safety	**$ 71,076**	**$ 71,076**	**$ 71,076**	**$ -**
Health	**$ 161,566**	**$ 161,566**	**$ 145,966**	**$ 15,600**
Debt service				
Principal	**$ -**	**$ -**	**$ 36,625**	**$ (36,625)**
Interest	**$ -**	**$ -**	**$ 8,907**	**$ (8,907)**
Total Expenditures	**$ 4,592,905**	**$ 4,592,905**	**$ 4,799,426**	**$ (206,521)**

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

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Excess of Revenues Over (Under) Expenditures	**$ (62,000)**	**$ (62,000)**	**$ 108,976**	**$ 170,976**
Other Financing Sources (Uses)				
Transfers in	$ 60,000	$ 60,000	$ 60,000	$ -
Transfers out	-	-	(150,721)	(150,721)
Proceeds from loan collections	1,000	1,000	80	(920)
Proceeds from the sale of assets	1,000	1,000	5,669	4,669
Total Other Financing Sources (Uses)	**$ 62,000**	**$ 62,000**	**$ (84,972)**	**$ (146,972)**
Net Change in Fund Balance	**$ -**	**$ -**	**$ 24,004**	**$ 24,004**
Fund Balance - January 1	**3,236,953**	**3,236,953**	**3,236,953**	**-**
Fund Balance - December 31	**$ 3,236,953**	**$ 3,236,953**	**$ 3,260,957**	**$ 24,004**

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

ROCK COUNTY
LUVERNE, MINNESOTA

Schedule 2

BUDGETARY COMPARISON SCHEDULE
PUBLIC WORKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 667,150	$ 667,150	$ 564,155	$ (102,995)
Intergovernmental	1,167,235	1,167,235	6,185,188	5,017,953
Charges for services	309,283	309,283	363,466	54,183
Investment earnings	32,000	32,000	30,150	(1,850)
Miscellaneous	109,550	109,550	7,610	(101,940)
Total Revenues	**$ 2,285,218**	**$ 2,285,218**	**$ 7,150,569**	**$ 4,865,351**
Expenditures				
Current				
Highways and streets				
Administration	$ 224,521	$ 224,521	$ 226,960	$ (2,439)
Maintenance	931,229	931,229	826,039	105,190
Construction	229,113	229,113	5,599,580	(5,370,467)
Equipment and maintenance shops	440,264	440,264	417,340	22,924
Material and services for resale	14,000	14,000	53,254	(39,254)
Other	91,258	91,258	90,907	351
Total highways and streets	**$ 1,930,385**	**$ 1,930,385**	**$ 7,214,080**	**$ (5,283,695)**
Sanitation				
Solid waste	294,833	294,833	340,364	(45,531)
Intergovernmental				
Highways and streets	-	-	216,739	(216,739)
Total Expenditures	**$ 2,225,218**	**$ 2,225,218**	**$ 7,771,183**	**$ (5,545,965)**
Excess of Revenues Over (Under) Expenditures	**$ 60,000**	**$ 60,000**	**$ (620,614)**	**$ (680,614)**
Other Financing Sources (Uses)				
Transfers in	$ -	$ -	$ 80,986	$ 80,986
Transfers out	(60,000)	(60,000)	(60,000)	-
Proceeds from the sale of assets	-	-	7,677	7,677
Total Other Financing Sources (Uses)	**$ (60,000)**	**$ (60,000)**	**$ 28,663**	**$ 88,663**
Net Change in Fund Balance	**$ -**	**$ -**	**$ (591,951)**	**$ (591,951)**
Fund Balance - January 1	**1,335,549**	**1,335,549**	**1,335,549**	**-**
Increase (decrease) in reserved for inventories	**-**	**-**	**6,931**	**6,931**
Fund Balance - December 31	**$ 1,335,549**	**$ 1,335,549**	**$ 750,529**	**$ (585,020)**

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

ROCK COUNTY
LUVERNE, MINNESOTA

Schedule 3

BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 908,269	$ 908,269	$ 803,255	$ (105,014)
Intergovernmental	1,539,237	1,539,237	1,546,432	7,195
Charges for services	55,000	55,000	55,279	279
Miscellaneous	175,819	175,819	132,532	(43,287)
Total Revenues	**$ 2,678,325**	**$ 2,678,325**	**$ 2,537,498**	**$ (140,827)**
Expenditures				
Current				
Human services				
Income maintenance	$ 947,271	$ 947,271	$ 860,017	$ 87,254
Social services	1,781,054	1,781,054	1,726,838	54,216
Total Expenditures	**$ 2,728,325**	**$ 2,728,325**	**$ 2,586,855**	**$ 141,470**
Net Change in Fund Balance	**$ (50,000)**	**$ (50,000)**	**$ (49,357)**	**$ 643**
Fund Balance - January 1	**1,030,640**	**1,030,640**	**1,030,640**	**-**
Fund Balance - December 31	**$ 980,640**	**$ 980,640**	**$ 981,283**	**$ 643**

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

ROCK COUNTY
LUVERNE, MINNESOTA

Schedule 4

BUDGETARY COMPARISON SCHEDULE
LAND MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 19,573	$ 19,574	$ 17,098	$ (2,476)
Special assessments	194,673	194,673	207,289	12,616
Licenses and permits	33,884	33,884	21,874	(12,010)
Intergovernmental	195,684	195,683	270,372	74,689
Charges for services	2,275	2,275	1,274	(1,001)
Investment earnings	-	-	4,347	4,347
Miscellaneous	7,500	7,500	15,930	8,430
Total Revenues	**$ 453,589**	**$ 453,589**	**$ 538,184**	**$ 84,595**
Expenditures				
Current				
General government				
Planning and zoning	**$ 37,407**	**$ 37,407**	**$ 34,144**	**$ 3,263**
Sanitation				
Solid waste	$ 59,455	$ 59,455	$ 52,457	$ 6,998
Recycling	92,056	92,056	84,446	7,610
Hazardous waste	26,501	26,501	33,166	(6,665)
Environmental office	137,502	137,502	141,164	(3,662)
Total sanitation	**$ 315,514**	**$ 315,514**	**$ 311,233**	**$ 4,281**
Conservation of natural resources				
Agricultural inspection	$ 11,592	$ 11,592	$ 10,378	$ 1,214
Water planning	148,531	148,531	192,207	(43,676)
Total conservation of natural resources	**$ 160,123**	**$ 160,123**	**$ 202,585**	**$ (42,462)**
Total Expenditures	**$ 513,044**	**$ 513,044**	**$ 547,962**	**$ (34,918)**
Excess of Revenues Over (Under) Expenditures	**$ (59,455)**	**$ (59,455)**	**$ (9,778)**	**$ 49,677**
Other Financing Sources (Uses)				
Transfers out	-	-	(80,986)	(80,986)
Net Change in Fund Balance	**$ (59,455)**	**$ (59,455)**	**$ (90,764)**	**$ (31,309)**
Fund Balance - January 1	**1,010,383**	**1,010,383**	**1,010,383**	**-**
Fund Balance - December 31	**$ 950,928**	**$ 950,928**	**$ 919,619**	**$ (31,309)**

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

ROCK COUNTY
LUVERNE, MINNESOTA

Schedule 5

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2009

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

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

This page was left blank intentionally.

ROCK COUNTY
LUVERNE, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2009

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Budget	Excess
General Fund	$ 4,799,426	$ 4,592,905	$ 206,521
Special Revenue Funds			
Public Works	7,771,183	2,225,218	5,545,965
Land Management	547,962	513,044	34,918

4. Other Postemployment Benefits

Rock County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* in 2009. Future reports will provide additional trend analysis to meet the three actuarial valuation data requirement as the information becomes available.

See Note 4.C. to the financial statements for more information.

This page was left blank intentionally.

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

ROCK COUNTY
LUVERNE, MINNESOTA

Schedule 6

BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 113,568	$ 113,568	$ 100,511	$ (13,057)
Intergovernmental	25,127	25,127	36,134	11,007
Total Revenues	**$ 138,695**	**$ 138,695**	**$ 136,645**	**$ (2,050)**
Expenditures				
Debt service				
Principal	$ 138,695	$ 138,695	$ 65,000	$ 73,695
Interest	-	-	63,098	(63,098)
Administrative (fiscal) fees	-	-	425	(425)
Total Expenditures	**$ 138,695**	**$ 138,695**	**$ 128,523**	**$ 10,172**
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ -**	**$ 8,122**	**$ 8,122**
Other Financing Sources (Uses)				
Transfers in	-	-	60,721	60,721
Net Change in Fund Balance	**$ -**	**$ -**	**$ 68,843**	**$ 68,843**
Fund Balance - January 1	**79,899**	**79,899**	**79,899**	**-**
Fund Balance - December 31	**$ 79,899**	**$ 79,899**	**$ 148,742**	**$ 68,843**

This page was left blank intentionally.

AGENCY FUNDS

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

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

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

This page was left blank intentionally.

ROCK COUNTY
LUVERNE, MINNESOTA

Statement 1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Balance January 1	Additions	Deductions	Balance December 31
FAMILY SERVICES COLLABORATIVE				
Assets				
Cash and pooled investments	$ 255,859	$ 69,428	$ 133,873	$ 191,414
Liabilities				
Accounts payable	$ 255,859	$ 69,428	$ 133,873	$ 191,414
SOCIAL WELFARE				
Assets				
Cash and pooled investments	$ 30,916	$ 283,420	$ 266,938	$ 47,398
Liabilities				
Accounts payable	$ 30,916	$ 283,420	$ 266,938	$ 47,398
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 59,964	$ 11,195,755	$ 11,202,050	$ 53,669
Liabilities				
Due to other governments	$ 59,964	$ 11,195,755	$ 11,202,050	$ 53,669

ROCK COUNTY
LUVERNE, MINNESOTA

Statement 1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Balance January 1	Additions	Deductions	Balance December 31
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	**$ 346,739**	**$ 11,548,603**	**$ 11,602,861**	**$ 292,481**
Liabilities				
Accounts payable	$ 286,775	$ 352,848	$ 400,811	$ 238,812
Due to other governments	59,964	11,195,755	11,202,050	53,669
Total Liabilities	**$ 346,739**	**$ 11,548,603**	**$ 11,602,861**	**$ 292,481**

OTHER SCHEDULE

This page was left blank intentionally.

ROCK COUNTY
LUVERNE, MINNESOTA

Schedule 7

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

Shared Revenue		
State		
Highway users tax	$	4,560,463
County program aid		785,795
PERA rate reimbursement		15,088
Disparity reduction aid		6,851
Police aid		74,263
Enhanced 911		81,820
Market value credit		416,736
Total shared revenue	**$**	**5,941,016**
Reimbursement for Services		
Minnesota Department of Human Services	**$**	**239,415**
Payments		
Local	**$**	**50,800**
Grants		
State		
Minnesota Department/Board of		
Human Services	$	393,891
Natural Resources		17,710
Public Safety		18,676
Transportation		165,114
Water and Soil Resources		170,254
Pollution Control Agency		55,475
Total state	**$**	**821,120**
Federal		
Department of		
Agriculture	$	77,606
Commerce		34,574
Health and Human Services		569,161
Transportation		2,061,617
Homeland Security		16,068
Total federal	**$**	**2,759,026**
Total state and federal grants	**$**	**3,580,146**
Total Intergovernmental Revenue	**$**	**9,811,377**

This page was left blank intentionally.

This page was left blank intentionally.

ROCK COUNTY
LUVERNE, MINNESOTA

Schedule 8

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009

I. SUMMARY OF AUDITOR'S RESULTS

A. Our report expresses unqualified opinions on the basic financial statements of Rock County.

B. Deficiencies in internal control were disclosed by the audit of the financial statements of Rock County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*" One of the significant deficiencies is a material weakness.

C. No instances of noncompliance material to the financial statements of Rock County were disclosed during the audit.

D. Significant deficiencies relating to the audit of the major federal award programs are 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." None were material weaknesses.

E. The Auditor's Report on Compliance for the major federal award programs for Rock County expresses an unqualified opinion.

F. Findings relative to a major federal award program for Rock County were reported as required by Section 510(a) of OMB Circular A-133.

G. The major programs are:

Highway Planning and Construction	CFDA #20.205
Federal Transit Capital Investment Grants	CFDA #20.500

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

I. Rock County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

05-1 Segregation of Duties

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.

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

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

We recommend that Rock County's management be aware of the lack of segregation of duties within the accounting functions and, if possible, implement and monitor oversight procedures to ensure that internal control policies and procedures are being followed by staff. We also recommend the County management cross-train employees so backup personnel are available for all necessary functions.

Client's Response:

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

06-3 Audit Adjustments

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

We recommend that the County review internal controls currently in place, then design and implement procedures to improve internal controls over financial reporting to detect misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements. In addition, we recommend the County include a final review process to trace items on the financial statements back to the supporting detail to detect errors, including mapping issues and other necessary adjustments that can be made by the County prior to the audit.

Client's Response:

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

ITEMS ARISING THIS YEAR

09-1 Monitoring Internal Controls

County management is responsible for monitoring its internal controls. Monitoring involves assessing the quality of performance over time. Monitoring should occur during normal operations and include reviews, comparisons, reconciliations, and other actions employees take in performing their duties.

An essential element of monitoring controls includes performing a risk assessment of existing controls over significant functions of the accounting system used to produce financial information for members of the County Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, staffing vacancies, updates to information systems, or changes to services being provided.

Our audit procedures detected areas and responsibilities performed by County staff with little or no documentation of the monitoring taking place by management or other staff members. Some areas with minimal or no monitoring include:

- processing journal entries;
- calculating inventory balances;
- reviewing capital asset additions, deletions, and balances; and
- reviewing identified receivables and payables.

We recommend that a formal plan be developed that calls for assessing and monitoring the significant internal controls on a regular basis, no less than annually. The monitoring should be documented to show the results of the review, changes required, and who performed the work.

Client's Response:

Rock County will develop a process for assessing and monitoring internal controls on an annual basis. The process will be documented to show the results of the review and any changes required.

09-2 Preparation of the IFS Financial Statements

The County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (for example, maintaining internal books and records), and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

Rock County contracts with Computer Professionals Unlimited, Inc. (CPUI), a service organization, to assist in the preparation of the basic financial statements from the County's Integrated Financial System (IFS), which is software that provides a database and user interface for the County's general ledger, accounting, and financial reporting.

For 2009, the beginning balance for net assets on the government-wide Statement of Activities from IFS differed from the prior year's audited ending balance of net assets by $2,108,109. Furthermore, the 2009 beginning balance for total fund balance for the governmental funds on the IFS Statement of Revenues, Expenditures, and Changes in Fund Balance differed from the prior year's audited fund balance by $1,916. Personnel from Rock County were not aware of the differences until we inquired during the audit.

CPUI told the County a bug in certain printed reports is not calculating amounts correctly, but the County's internal data is fine. CPUI also stated that very few counties are submitting some of these reports, so it was decided not to fix it in the current IFS, but the issues will be corrected in the new IFS platform independent (IFSpi) general ledger system.

The County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on the IFS package. As a result of this condition, the County lacks internal controls over the preparation and reporting of financial statements in accordance with GAAP. In addition, audit costs increase when auditors have to spend additional time initiating, reviewing, proposing, and booking changes to reports generated from the IFS.

We recommend that the County work with CPUI to resolve differences in the IFS reports before preparing its annual financial statements. If this is not practical or possible, we recommend the County obtain a financial package or use spreadsheets that allow for the preparation of its annual financial statements in accordance with GAAP.

Client's Response:

Rock County will work with CPUI to resolve the difference in the IFS statements and will also work towards using the Minnesota State Auditor's Trial Balance package for the preparation of future financial statements.

PREVIOUSLY REPORTED ITEMS RESOLVED

Controls Over Medical Assistance Recoveries (08-1)

The County did not review or monitor the status of medical assistance (MA) recoveries or the subsequent payment to the Minnesota Department of Human Services (DHS) for the state and federal share of such collections.

Resolution

Rock County Family Services implemented control procedures for MA collections and improved reporting to DHS.

Information System Risk Management (08-2)

Rock County contracts with CPUI to provide: computer hardware for hosting the County's applications; processing of accounting transactions of other data; daily, weekly, and full system backups of applications and processed data; and disaster recovery planning for continued operations. During our site visit to CPUI, we noted that computers were not located in a restricted area away from public view. The computers were in an unlocked cage. Daily backup tapes for information processed Monday through Thursday were kept on site in a locked metal cabinet; however, the cabinet was not designed to protect the tapes from the heat that would be generated in the event of a fire. One fire extinguisher was observed in the office. Weekly and full system backup information was kept at an offsite location.

Resolution

CPUI now has a Sentry Safe that protects up to 1,700 degrees. If necessary, the safe could be extracted through a nearby window in the event of a fire. In addition, CPUI's office now has two fire extinguishers, and computers are maintained in a locked storage room overnight.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

09-3 Davis-Bacon Act Compliance (CFDA #20.500)

When required by the Davis-Bacon Act, all laborers and mechanics employed by the contractors or subcontractors to work on construction contracts in excess of $2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project.

In November 2008, the County awarded a contract for the construction of a transit building to be paid, in part, using federal funding not to exceed $495,000, through a Federal Transit Capital Investment Grant, CFDA #20.500. Work on the project began and was completed in 2009. The contract for the construction of the transit building did not contain language or rates for federal and state prevailing wages. The County identified this contract deficiency in May 2009 but did not sign a new agreement with the contractor to establish federal and state wage rate guidelines or require the reporting of wage rates to the County. Final payment was made on the contract in December 2009. Due to noncompliance with the Davis-Bacon Act provisions of the grant contract, the County incurred $69,815 in additional liabilities and expenditures due to contractors and subcontractors in order to comply with federal and state prevailing wages. The additional payments were made by the County in September 2010.

According to the Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*, the Davis-Bacon Act is an applicable compliance requirement to entities receiving funding through the Federal Transit Capital Investment Grant. The grant agreement between Rock County and the Minnesota Department of Transportation states: “All laborers and mechanics employed or working upon the site of the work . . . will be paid . . . the full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor . . . regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics.” The grant contract also states, “The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to [Rock County] for transmission to the Federal Transit Administration.”

We recommend the County implement review procedures to ensure construction contracts include provisions for the Davis-Bacon Act and other relevant compliance. We also recommend the County review its system for monitoring projects for compliance with the Davis-Bacon Act, when applicable.

<u>Corrective Action Plan</u>:

<u>Contact Person Responsible for Corrective Action</u>:

Kyle Oldre, County Administrator

<u>Corrective Action Planned</u>:

Rock County will require all contracts issued in excess of $2,000 and financed by federal assistance will have a provision requiring compliance with the Davis-Bacon Act and County management will monitor compliance of the Davis-Bacon Act when applicable.

<u>Completion Date</u>:

November 2010

09-4 <u>Reporting Requirements (CFDA #20.205)</u>

During 2009, Rock County received federal funding for Highway Planning and Construction, CFDA #20.205. Funding is received based on an approved eligible amount after contractors are paid for completed work. Funding of the eligible expenditures for this program was approved in the amount of 80 percent of eligible costs.

In April 2009, the County requested $480,220 in federal funding on SP 67-604-022. This request was incorrectly based on the certified amount of the project to date and included amounts previously requested in March 2009 as well as funding that was later determined to be paid as state funding. The corresponding payment to the contractor for April 2009 was $344,180; therefore, 80 percent of this amount, calculated as $275,344, should have been requested. The County received $204,876 in excess of eligible federal expenditures for the period. This particular project was capped at $1,000,000 in federal funding so, although the request described previously was incorrect, there are no questioned costs, as total costs for the project during 2009 exceeded $2,000,000. While the County received more federal awards than allowable for April, subsequent reimbursements in 2009 were less than allowable due to the federal cap being exceeded.

We recommend that reimbursement requests be made based on eligible expenditures for each applicable period. We also recommend the County implement a system to review reimbursement requests before submission to help ensure requests are made for correct amounts.

Corrective Action Plan:

Contact Person Responsible for Corrective Action:

Mark Sehr, Highway Engineer

Corrective Action Planned:

Rock County will develop procedures to ensure that reimbursement requests made will be based on eligible expenditures. The procedures will include the review of reimbursement requests by the Engineer before submission.

Completion Date:

November 2010

09-5 Identification and Classification of Federal Financial Assistance

OMB Circular A-133, Subpart C, *.300, lists auditee responsibilities which include: (1) identifying all federal awards received and expended and the federal programs under which they were received; and (2) preparing appropriate financial statements, including the Schedule of Expenditures of Federal Awards (SEFA).

Rock County did not adequately identify all of its federal financial assistance either as to amount, source, or correct CFDA number in the general ledger as required under OMB Circular A-133 and the American Recovery and Reinvestment Act of 2009 (ARRA). Of particular concern are grants received by the General Fund, Public Works Special Revenue Fund, and Family Services Special Revenue Fund that are not properly coded. The County has some established procedures for identifying federal financial assistance for preparing financial reports and the SEFA. The County should develop additional procedures to ensure all federal programs are correctly identified and classified.

The Public Works Special Revenue Fund received federal highway construction grants passed through the Minnesota Department of Transportation. The County does not prepare a contract analysis that would allow it to determine the amount of federal expenditures incurred during the fiscal period. Preparation of this information is also necessary for correct SEFA presentation. This condition results in a weakness in internal control over financial statement preparation and reporting of federal financial assistance.

We recommend that Rock County management develop written procedures that will allow staff to correctly identify and classify all federal financial assistance received. Procedures should include determination of the correct program CFDA number, revenue source, program name, and whether ARRA funding is involved. The federal CFDA website is available to assist in this process. These procedures should allow for proper classification of federal programs in the SEFA. A contract analysis of federal financial assistance expended and received in the Public Works Special Revenue Fund should be included as part of these basic procedures.

<u>Corrective Action Plan</u>:

<u>Contact Person Responsible for Corrective Action</u>:

Ashley Kurtz, Deputy Auditor-Accountant

<u>Corrective Action Planned</u>:

Rock County will develop written procedures that will assist in classifying federal financial assistance. The procedures will include developing a Schedule of Expenditures of Federal Awards.

<u>Completion Date</u>:

November 2010

<u>PREVIOUSLY REPORTED ITEM RESOLVED</u>

Charges at Family Services (CFDA Nos. 93.563 and 93.778) (08-3)

Two instances of unallowable charges to the Department of Human Services (DHS) were discovered during the audit. The County included $1,066 for coffee for the break room and a capital allocation of $3,402 to the Retired Senior Volunteer Program of Southwest Minnesota in its administrative expenditures reports to DHS.

Resolution

An amended quarterly report was submitted to DHS to address the unallowable costs noted during the previous audit. Additional review procedures have been implemented to prevent future reporting of unallowable costs to DHS.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

08-4 Default and Collateral Substitution

No written agreement between the County and First Farmers & Merchants Bank addresses the default language required by Minn. Stat. § 118A.03, subds. 4 and 6. The collateral control agreement between the County and First Farmers & Merchants Bank provides that the County ". . . consents to any sale, transfer for value or redemption of any or all of the Securities and to any reinvestment of the proceeds. . . ."

In statutes discussing when and what collateral is required, 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." Certain instances that constitute default by the financial institution are specified in Minn. Stat. § 118A.03, subd. 6.

Further, Minn Stat. § 118A.03, subd. 5, states, "[a] financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the governmental entity and receiving confirmation." The processes described by the bank do not meet this standard because they allow the financial institution to substitute collateral before it gives any notice to the governmental entity.

We recommend that the County review this security agreement to ensure that it is consistent with the default language of Minn. Stat. § 118A.03, subds. 4 and 6, and that the required language is included. We also recommend the County review the procedures used for collateral substitutions for compliance with Minn. Stat. § 118A.03, subd. 5.

Client's Response:

Rock County is working with management of First Farmers & Merchants Bank regarding the default language and will have agreement by the 2010 audit.

ITEM ARISING THIS YEAR

09-6 Withholding Affidavit for Contractors (IC-134)

Final payment was made on the project for the transit building before Form IC-134, which requires employee withholdings, was received from the contractor and subcontractors and approved by the Minnesota Department of Revenue. The contract involved the employment of individuals for wages by contractors. The County made final payment on the contract in December 2009; however, when we were on site to conduct initial fieldwork for the audit in March 2010, the County did not have a copy of a withholding affidavit for contractors available from the contractor or subcontractors of this building project.

Referring to the withholding of income taxes by the contractor or 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."

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

Client's Response:

Rock County will not make final settlement with any contractor until Form IC-134 is received and approved by the Minnesota Department of Revenue.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

06-16 Tax Identification Number

The Buffalo Ridge Rail Authority uses the County's tax identification number on its bank account even though the organization is not part of the County. The December 31, 2009, bank balance of the account was $4,692.

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

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

Client's Response:

Buffalo Ridge Rail Authority has been informed and will resolve in 2010.

ITEM ARISING THIS YEAR

09-7 Meeting Minutes

While we were on site to perform audit procedures in September 2010, we noted the following deficiencies with the County's meeting minutes:

- no minutes were signed after September 22, 2009; and
- the last copy of minutes in the book of official minutes was for the June 15, 2010, meeting.

Board minutes should be signed after they are approved at each meeting to show that they are the correct and complete record of business conducted at that meeting.

We recommend the County implement procedures to ensure the minutes are complete, kept up to date and filed timely in the official record or minutes book. Further, we recommend that the minutes be signed by the preparer and then by the designated member of the County Board once approved by the Board.

Client's Response:

Rock County will implement procedures to ensure minutes are complete, kept up to date, and filed timely in the official record. Minutes will be signed and dated by the designated member of the County Board and the Clerk of the County Board according to statutory guidelines.

C. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved, designated, and undesignated are being replaced by nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).

- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.

- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.

- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for the County for the year ending December 31, 2011.

This page was left blank intentionally.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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

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

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

Board of County Commissioners
Rock County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 3, 2010. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Rock County Rural Water District, which represents the amounts shown as the discretely presented component unit, as described in our report on Rock County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 06-3 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 05-1, 09-1, and 09-2 to be significant deficiencies.

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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because the County does not have any tax increment financing districts of its own.

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 08-4 and 09-6.

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

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 3, 2010

This page was left blank intentionally.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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

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

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

Board of County Commissioners
Rock County

Compliance

We have audited the compliance of Rock County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. 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.

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, 2009.

Internal Control Over Compliance

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 09-3 through 09-5. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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, 2009, and have issued our report thereon dated

December 3, 2010. 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 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 plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plans 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

December 3, 2010

This page was left blank intentionally.

ROCK COUNTY
LUVERNE, MINNESOTA

Schedule 9

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

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 the Supplemental Nutrition Assistance Program (SNAP) Cluster			
State Administrative Matching Grants for SNAP	10.561	$	76,501
State Administrative Matching Grants for SNAP - ARRA	10.561		1,105
Total U.S. Department of Agriculture		**$**	**77,606**
U.S. Department of Commerce			
Passed Through Southwest Minnesota Regional Radio Board			
Public Safety Interoperable Communications Grant Program	11.555	**$**	**34,574**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	$	1,331,327
Federal Transit - Capital Investment Grants	20.500		495,000
Formula Grants for Other Than Urbanized Areas Cluster			
Formula Grants for Other Than Urbanized Areas	20.509		75,065
Formula Grants for Other Than Urbanized Areas - ARRA	20.509		64,000
Passed Through Minnesota Department of Public Safety			
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601		1,531
Total U.S. Department of Transportation		**$**	**1,966,923**
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services			
Projects for Assistance in Transition from Homelessness (PATH)	93.150	$	1,690
Temporary Assistance for Needy Families	93.558		63,732
Child Support Enforcement Cluster			
Child Support Enforcement	93.563		140,778
Child Support Enforcement - ARRA	93.563		19,993
Refugee and Entrant Assistance - State-Administered Programs	93.566		199
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		5,258
Child Welfare Services - State Grants	93.645		1,082
Foster Care - Title IV-E Cluster			
Foster Care - Title IV-E	93.658		29,671
Foster Care - Title IV-E - ARRA	93.658		1,713
Social Services Block Grant	93.667		72,445
Chafee Foster Care Independence Program	93.674		2,646
Medical Assistance Program	93.778		227,143
Block Grants for Community Mental Health Services	93.958		2,811
Total U.S. Department of Health and Human Services		**$**	**569,161**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

ROCK COUNTY
LUVERNE, MINNESOTA

Schedule 9
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number		Expenditures
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance Grants	97.042	$	13,743
Homeland Security Grant Program	97.067		2,325
Total U.S. Department of Homeland Security		**$**	**16,068**
Total Federal Awards		**$**	**2,664,332**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Rock County's primary government. The County's reporting entity is defined in Note 1 to the financial statements. The discretely presented component unit had no federal expenditures.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Rock County under programs of the federal government for the year ended December 31, 2009. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Because the schedule presents only a selected portion of the operations of Rock County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Rock County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$ 2,759,026
Highway Planning and Construction grant monies spent in 2008 and not received until June and November 2009 (CFDA #20.205)	(124,480)
Highway Planning and Construction grant monies spent in 2009 and not received until March 2010 (CFDA #20.205)	29,786
Expenditures per Schedule of Expenditures of Federal Awards	$ 2,664,332

4. Reconciliation to Schedule of Intergovernmental Revenue (Continued)

The County planned to receive $238,971 of highway planning and construction for construction material expenditures related to 2008, resulting in accrual of expenditures as federal for the year ending December 31, 2008. The 2009 audit revealed the expenditures previously reported as federal were reimbursed with state bridge bonding funds.

5. Passed Through to Subrecipients

During 2009, the County did not pass any federal money to subrecipients.

6. American Recovery and Reinvestment Act

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