

**ROCK COUNTY, MINNESOTA
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2018**

**ROCK COUNTY
LIVERNE, MINNESOTA**

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**ROCK COUNTY
LIVERNE, MINNESOTA**

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INTRODUCTORY SECTION

**ROCK COUNTY
LIVERNE, MINNESOTA**

**ORGANIZATIONAL SCHEDULE
ROCK COUNTY**

2018

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1st District	Gary Overgaard	January 2021
2nd District	Stanley Williamson**	January 2019
3rd District	Greg Burger	January 2021
4th District	Sherri Thompson*	January 2019
5th District	Jody Reisch	January 2021
Officers		
Elected		
Attorney	Donald R. Klosterbuer	January 2019
Sheriff	Evan Verbrugge	January 2019
Appointed		
Administrator	Kyle J. Oldre	Indefinite
Auditor/Treasurer	Ashley Kurtz	Indefinite
Highway Engineer	Mark Sehr	Indefinite
Land Records Director	Thomas Houselog	Indefinite

*Chair 2018

**Chair 2018

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**ROCK COUNTY
LIVERNE, MINNESOTA**

**ORGANIZATIONAL SCHEDULE
ROCK COUNTY RURAL WATER DISTRICT**

2018

<u>Position</u>	<u>Name</u>	<u>Term Expires</u>
Chair	Paul Heronimus	January 2019
Vice Chair	Vern Van De Berg	January 2021
Secretary	Sheila Steinhoff	January 2020
Treasurer	Stanley Williamson	January 2019
Director	Andrew Hoyme	January 2020
Director	Scott Loosbrock	January 2021
Director	Wayne Thompson	January 2019

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of County Commissioners
Rock County
Luverne, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County (the County), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, schedule of changes in the total OPEB liability and related ratios, schedule of proportionate share of net pension liability, and schedule of pension contributions as listed on the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rock County's basic financial statements. The budgetary comparison schedule – Debt Service Fund, combining statement of changes in assets and liabilities – agency funds, schedule of intergovernmental revenue and Rock County Rural Water District statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedule – Debt Service Fund, combining statement of changes in assets and liabilities – agency funds, schedule of intergovernmental revenue and Rock County Rural Water District statements are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule – Debt Service Fund, combining statement of changes in assets and liabilities – agency funds, schedule of intergovernmental revenue and Rock County Rural Water District statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Rock County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rock County's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Alexandria, Minnesota
September 6, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

**ROCK COUNTY
LIVERNE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(Unaudited)**

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the County's financial activities for the fiscal year ended December 31, 2018. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$60,347,839, of which \$56,818,682 represents net investment in capital assets, and \$1,798,610 is restricted to specific purposes. The \$1,730,547 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net position increased by \$1,808,929 for the year ended December 31, 2018.
- The net cost of governmental activities for the current fiscal year was \$5,542,579. General revenues and other items totaling \$7,351,508 funded the net cost.
- At the close of 2018, Rock County's combined ending governmental fund balances totaled \$8,580,100, an increase of \$1,558,343 from 2017. Of this balance, \$3,527,375 was unassigned by Rock County and thus available for spending at the government's discretion.
- For the year ended December 31, 2018, the assigned and unassigned balance of the General Fund was \$4,462,480, or 81.3 percent, of the total General Fund expenditures for that year. This represents an increase from 2017, which had 69.7 percent of the total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

Fund Level Financial Statements

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

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

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

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

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

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

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

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28 through 84 of this report.

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. Rock County's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$60,347,839 at the close of 2018. The largest portion of Rock County's net position (94.2 percent) reflects the County's net investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges), less any related outstanding debt used to acquire those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Net Position

	Governmental Activities	
	2018	2017
Assets		
Current and other assets	\$ 9,729,222	\$ 8,349,771
Capital assets	62,468,245	62,910,866
Total Assets	\$ 72,197,467	\$ 71,260,637
Deferred Outflows of Resources		
Pension related	\$ 1,745,487	\$ 2,471,145
OPEB related	9,197	-
Total Deferred Outflows of Resources	\$ 1,754,684	\$ 2,471,145
Liabilities		
Long-term liabilities	\$ 10,096,753	\$ 11,632,644
Current liabilities	610,716	611,709
Total Liabilities	\$ 10,707,469	\$ 12,244,353
Deferred Inflows of Resources		
Advances from other governments	\$ 336,670	\$ 243,945
Pension related	2,560,173	2,610,814
Taxes levied for subsequent period	-	93,760
Total Deferred Inflows of Resources	\$ 2,896,843	\$ 2,948,519
Net Position		
Net investment in capital assets	\$ 56,818,682	\$ 56,539,896
Restricted	1,798,610	1,272,660
Unrestricted	1,730,547	726,354
Total Net Position	\$ 60,347,839	\$ 58,538,910

Unrestricted net position--the part of net position that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--was 2.9 percent of the net position.

Governmental Activities

The County's governmental activities increased net position by 3.1 percent (\$60,347,839 for 2018 compared to \$58,538,910 for 2017). Key elements in this decrease in net position are as follows for 2018, with comparative data for 2017:

Changes in Net Position

	Governmental Activities	
	2018	2017
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 2,189,373	\$ 2,336,158
Operating grants and contributions	3,148,965	3,067,501
Capital grants and contributions	3,958,542	2,440,776
General revenues		
Property and other taxes	6,315,214	6,170,010
Unrestricted state aid	724,207	367,651
Investment income	170,573	77,539
Other	141,514	156,454
Total Revenues	\$ 16,648,388	\$ 14,616,089
Expenses		
General government	\$ 2,698,180	\$ 2,705,854
Public safety	2,256,326	2,703,563
Highways and streets	6,713,344	4,455,293
Sanitation	825,758	810,593
Human services	1,283,658	1,231,994
Health	16,800	16,800
Culture and recreation	422,407	464,329
Conservation of natural resources	483,941	526,587
Economic development	500	2,000
Interest	138,545	159,396
Total Expenses	\$ 14,839,459	\$ 13,076,409
Change in Net Position	\$ 1,808,929	\$ 1,539,680
Net Position - January 1	58,538,910	56,999,230
Net Position - December 31	\$ 60,347,839	\$ 58,538,910

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$8,580,100, an increase of \$1,558,343 in comparison with the prior year. Of the combined ending fund balances, \$6,325,179 represents unrestricted (committed, assigned, and unassigned) fund balance, which is available for spending at the County's discretion. The

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

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unrestricted (committed, assigned, and unassigned) fund balance of \$4,512,480. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted (committed, assigned, and unassigned) fund balance to total expenditures. The General Fund's unrestricted (committed, assigned, and unassigned) fund balance represents 82.2 percent of total General Fund expenditures. During 2018, the ending fund balance increased by \$486,811.

The Public Works Special Revenue Fund had an assigned fund balance of \$825,592 at fiscal year-end. The ending fund balance increased \$849,560 during 2018.

The Family Services Special Revenue Fund had an assigned fund balance of \$85,970 at fiscal year-end, representing 6.7 percent of its annual expenditures. The ending fund balance decreased \$4,357 during 2018.

The Land Management Special Revenue Fund had an assigned fund balance of \$901,137 at fiscal year-end, representing 124.3 percent of its annual expenditures. The ending fund balance increased \$225,890 during 2018.

The Ditch Special Revenue Fund had a restricted fund balance of \$208,507 at fiscal year-end, representing 245.0 percent of its annual expenditures. The ending fund balance decreased \$13,127 during 2018.

The Debt Service Fund had a restricted fund balance of \$445,737 at fiscal year-end, representing 54.0 percent of its annual expenditures. The ending fund balance increased \$13,566. The Debt Service Fund consists of tax levy dollars used to pay the bond for the construction of the Law Enforcement Center, bonds for highway capital equipment and infrastructure and capital improvements to the library.

Governmental Activities

The County's total revenues were \$16,648,388. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2018.

**Table 1
Total County Revenues**

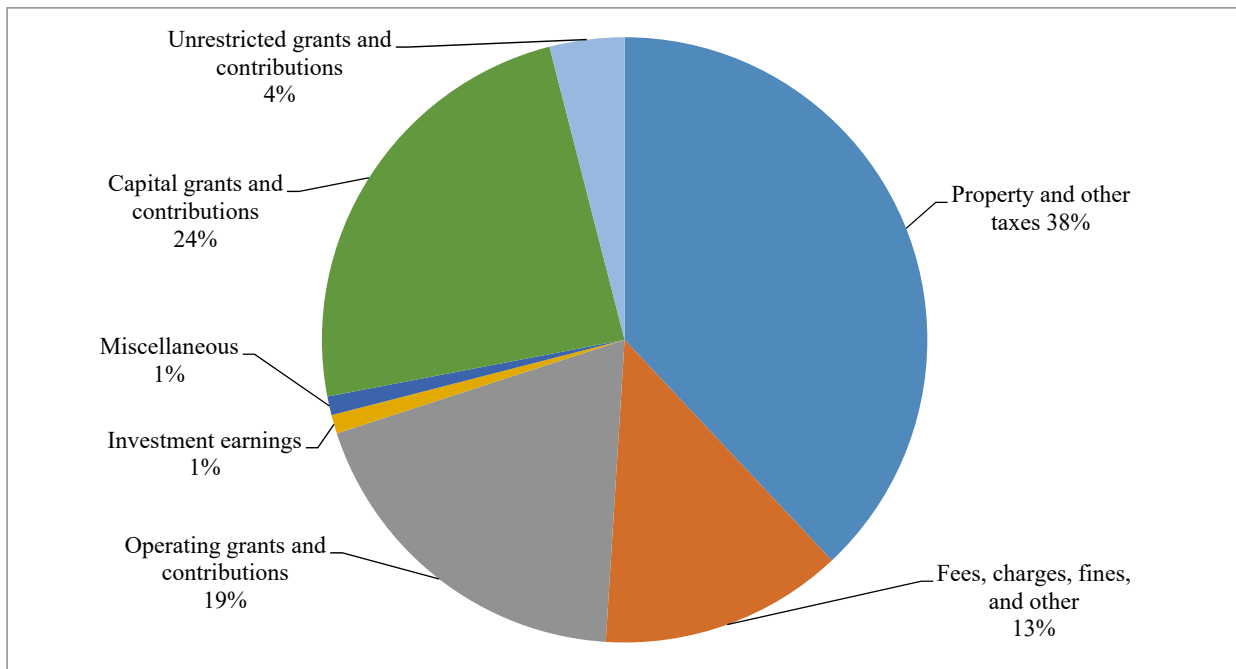
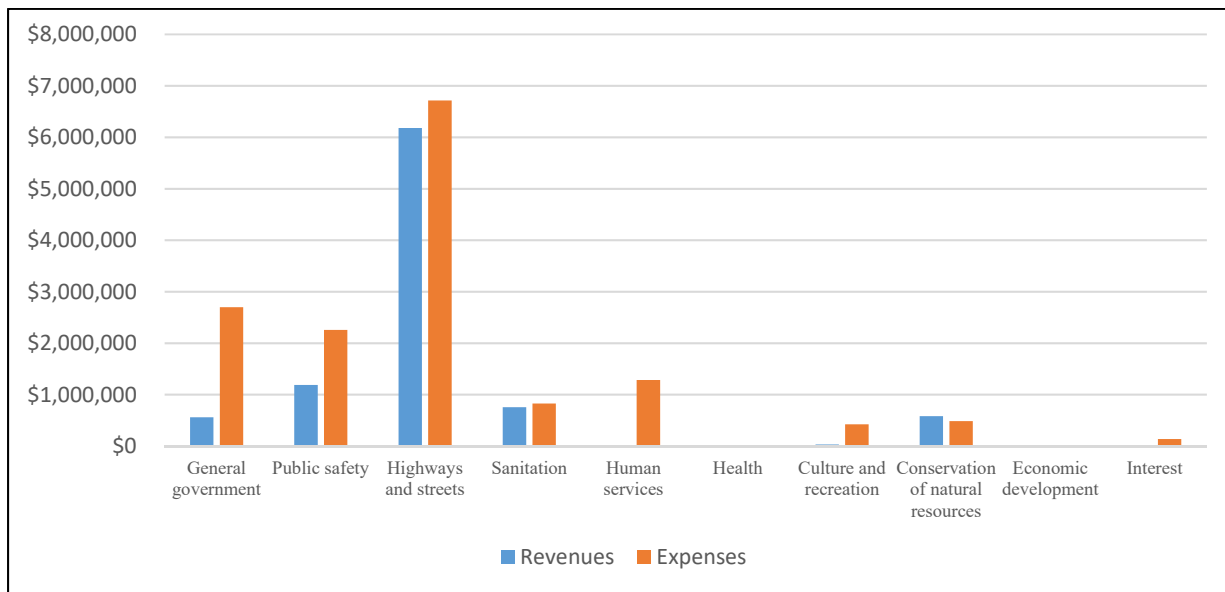


Table 2 presents the cost and revenue of each program of the County. Total program and general revenues for the County were \$16,648,388, while total expenses were \$14,839,459. This reflects a \$1,808,929 increase in net position for the year ended December 31, 2018.

**Table 2
Total Program Revenues and Expenses**



(Unaudited)

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The cost of all governmental activities this year was \$14,839,459. However, as shown on the Statement of Activities on Exhibit 2, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$5,542,579 because some of the costs were paid by those who directly benefited from the programs (\$2,189,373) or by other governments and organizations that subsidized certain programs with grants and contributions (\$7,107,507). The County paid for the remaining “public benefit” portion of governmental activities with \$7,351,508 in general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs, and investment income.

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

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost (Revenue) of Services	
	2018	2017	2018	2017
Highways and streets	\$ 6,713,344	\$ 4,455,293	\$ 532,205	\$ (272,666)
General government	2,698,180	2,705,854	2,138,370	2,184,170
Public safety	2,256,326	2,703,563	1,069,165	1,470,084
Human services	1,283,658	1,231,994	1,283,658	1,231,994
All others	1,887,951	1,979,705	519,181	618,392
Totals	<u>\$ 14,839,459</u>	<u>\$ 13,076,409</u>	<u>\$ 5,542,579</u>	<u>\$ 5,231,974</u>

General Fund Budgetary Highlights

Actual General Fund revenues exceeded final budgeted revenues by \$1,105,463 primarily due to greater than expected grants and other intergovernmental aid and the receipt of wind production tax.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County’s capital assets for its governmental activities at December 31, 2018, totaled \$62,468,245 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets decreased \$442,621, or 0.7 percent, from the previous year. The major capital asset events were additions to:

Infrastructure	\$ 1,649,874
Machinery, Furniture, and Equipment	375,041

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

	<u>2018</u>	<u>2017</u>
Land/Right of way	\$ 1,212,882	\$ 1,212,882
Construction in progress	-	373,321
Works of art and historical treasures	620,000	620,000
Infrastructure	50,027,720	49,819,708
Buildings	7,416,205	7,516,859
Land improvements	119,362	130,467
Machinery, equipment, and vehicles	<u>3,072,076</u>	<u>3,237,629</u>
Total	<u>\$ 62,468,245</u>	<u>\$ 62,910,866</u>

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

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of \$5,984,092, which was backed by the full faith and credit of the government.

Table 5
Outstanding Debt

	<u>2018</u>	<u>2017</u>
General obligation bonds	\$ 5,490,000	\$ 6,215,000
Capital leases	120,857	145,021
Loans payable	<u>373,235</u>	<u>434,800</u>
Total	<u>\$ 5,984,092</u>	<u>\$ 6,794,821</u>

Minnesota statutes limit the amount of debt a county may levy to three percent of its total market value. At the end of 2018, the County's outstanding debt was 0.20 percent of its total estimated market value of \$3,007,065,400.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- The unemployment rate for Rock County at the end of 2018 was 2.3 percent. This compares favorably with the state unemployment rate of 2.9 percent. The 2018 population is estimated at 9,435.
- On December 27, 2018, the Rock County Board of Commissioners approved the 2019 budget and adopted a property tax levy of \$5,872,592, which represents a 4.25 percent increase over the 2018 property tax levy of \$5,633,174.

Rock County Tax Rate and Levy History

2018	21.824%	\$5,872,592
2018	21.528	5,633,174
2017	19.841	5,469,492
2016	19.841	5,153,362
2015	18.241	5,009,217
2014	18.890	4,821,191
2013	24.639	4,682,771
2012	29.144	4,597,714
2011	29.599	4,485,575
2010	28.573	4,170,151

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

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Primary Government	Component Unit
	Governmental	Rock County Rural
	Activities	Water District
ASSETS		
Cash and Cash Equivalents	\$ 8,911,930	\$ 2,019,065
Undistributed Cash in Agency Funds	96,944	-
Cash and Cash Equivalents - Restricted	-	1,175,000
Accounts Receivable - Net	657,516	347,005
Accounts Receivable - Restricted	-	739,110
Inventories	46,310	54,722
Prepaid Items	16,522	8,160
Capital Assets:		
Non-Depreciable	1,832,882	1,330,260
Depreciable - Net of Accumulated Depreciation	60,635,363	8,131,316
Total Assets	72,197,467	13,804,638
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	1,745,487	17,012
OPEB Related	9,197	-
Total Deferred Outflows of Resources	1,754,684	17,012
LIABILITIES		
Accounts Payable and Other Current Liabilities	447,472	224,335
Unearned Revenue	98,103	-
Customer Deposits	19,700	6,833
Interest Payable	45,441	55,530
Long-Term Liabilities:		
Due Within One Year	897,523	162,696
Due in More Than One Year	5,602,930	2,589,547
Net Pension Liability	3,358,484	100,461
Net Other Postemployment Benefits Obligation	237,816	3,158
Total Liabilities	10,707,469	3,142,560
DEFERRED INFLOWS OF RESOURCES		
Pension Related	2,560,173	31,270
Advance from Other Governments	336,670	-
Total Deferred Inflows of Resources	2,896,843	31,270
NET POSITION		
Net Investment in Capital Assets	56,818,682	6,723,576
Restricted For:		
Public Safety	204,149	-
Highways and Streets	620,209	-
Debt Service	404,076	-
Rural Water Distribution System	-	1,914,110
Short Lived Assets	-	228,500
Conservation	201,597	-
Other Purposes	368,579	-
Unrestricted	1,730,547	1,781,634
Total Net Position	\$ 60,347,839	\$ 10,647,820

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

**STATEMENT OF ACTIVITIES
DECEMBER 31, 2018**

FUNCTIONS/PROGRAMS	Expenses	Fees, Charges, Fines, and Other	Program Revenues Operating Grants and Contributions
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES			
General government	\$ 2,698,180	\$ 437,552	\$ 83,100
Public safety	2,256,326	980,039	207,122
Highways and streets	6,713,344	62,670	2,199,085
Sanitation	825,758	688,262	67,729
Human services	1,283,658	-	-
Health	16,800	-	-
Culture and recreation	422,407	7,802	24,551
Conservation of natural resources	483,941	13,048	567,378
Economic development	500	-	-
Interest	138,545	-	-
Total Governmental Activities	<u>\$ 14,839,459</u>	<u>\$ 2,189,373</u>	<u>\$ 3,148,965</u>
COMPONENT UNIT			
Rock County Rural Water District	<u>\$ 1,038,727</u>	<u>\$ 1,016,815</u>	<u>\$ 4,605</u>

GENERAL REVENUES

Property taxes
Wind production tax
Other taxes
Payments in lieu of tax
Grants and contributions not restricted for a particular purpose
Interest income
Miscellaneous

Total General Revenues

CHANGE IN NET POSITION

Net Position - Beginning of Year

NET POSITION - END OF YEAR

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT 2

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	
	Primary Government	Component Unit
	Governmental Activities	Rock County Rural Water District
\$ 39,158	\$ (2,138,370)	
-	(1,069,165)	
3,919,384	(532,205)	
-	(69,767)	
-	(1,283,658)	
-	(16,800)	
-	(390,054)	
-	96,485	
-	(500)	
-	(138,545)	
\$ 3,958,542	(5,542,579)	
\$ 757,988		\$ 740,681
	\$ 5,488,979	-
	660,345	-
	85,498	-
	80,392	-
	724,207	1,378
	170,573	40,093
	141,514	-
	7,351,508	41,471
	1,808,929	782,152
	58,538,910	9,865,668
	\$ 60,347,839	\$ 10,647,820

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

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FUND FINANCIAL STATEMENTS

**ROCK COUNTY
LIVERNE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

ASSETS	<u>General</u>	<u>Public Works</u>	<u>Family Services</u>
Cash and Cash Equivalents	\$ 5,237,177	\$ 1,889,824	\$ 67,951
Petty Cash and Change Funds	1,475	75	-
Undistributed Cash in Agency Funds	55,048	12,632	18,019
Taxes Receivable - Delinquent	7,978	2,028	2,914
Special Assessments Receivable:			
Delinquent	-	-	-
Noncurrent	-	-	-
Accounts Receivable	52,270	49,567	-
Accrued Interest Receivable	5,899	1,525	-
Loans Receivable	127,429	-	-
Due from Other Governments	25,845	18,837	-
Due from Other Funds	-	51	-
Inventory	-	46,310	-
Prepaid Items	12,820	2,480	-
	<u>\$ 5,525,941</u>	<u>\$ 2,023,329</u>	<u>\$ 88,884</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 102,358	\$ 71,459	\$ -
Salaries Payable	62,154	28,938	-
Contracts Payable	-	75,032	-
Due to Other Governments	91,867	3,873	-
Due to Other Funds	-	-	-
Unearned Revenue	-	-	-
Customer Deposits	1,700	-	-
	<u>258,079</u>	<u>179,302</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	13,450	14,609	2,914
Advance from Other Governments.	-	336,670	-
	<u>13,450</u>	<u>351,279</u>	<u>2,914</u>

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

**EXHIBIT 3
(Continued)**

Land Management	Ditch	Debt Service	Total Governmental Funds
\$ 1,066,771	\$ 207,835	\$ 440,822	\$ 8,910,380
-	-	-	1,550
5,658	672	4,915	96,944
64	-	822	13,806
6,227	-	-	6,227
-	178,469	-	178,469
-	-	-	101,837
18	-	-	7,442
128,430	-	-	255,859
49,194	-	-	93,876
-	-	-	51
-	-	-	46,310
1,222	-	-	16,522
<u>\$ 1,257,584</u>	<u>\$ 386,976</u>	<u>\$ 446,559</u>	<u>\$ 9,729,273</u>
\$ 1,556	\$ -	\$ -	\$ 175,373
10,235	-	-	101,327
-	-	-	75,032
-	-	-	95,740
51	-	-	51
98,103	-	-	98,103
18,000	-	-	19,700
127,945	-	-	565,326
36,913	178,469	822	247,177
-	-	-	336,670
36,913	178,469	822	583,847

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	General	Public Works	Family Services
FUND BALANCES			
Nonspendable:			
Inventory	\$ -	\$ 46,310	\$ -
Loans Receivable	127,429	-	-
Prepaid Items	12,820	2,480	-
Missing Heirs	3,549	-	-
Restricted:			
Law Library	2,199	-	-
Gun Permit Fees	80,048	-	-
Recorder's Technology Fund	10,303	-	-
Recorder's Compliance Fund	172,603	-	-
E-911	93,287	-	-
Septic System Loans	-	-	-
Sheriff's Contingency	1,204	-	-
Sheriff's Forfeited Property	29,610	-	-
Attorney Forfeited Property	20,685	-	-
Transportation	64,863	-	-
Election Grant	23,378	-	-
Blandin Grant	74,548	-	-
Unspent Bond Proceeds	25,406	-	-
Highway Allotments	-	618,366	-
Ditch Repairs and Maintenance	-	-	-
Debt Service	-	-	-
Committed:			
Historical Society	50,000	-	-
Assigned:			
Public Works	-	825,592	-
Family Services	-	-	85,970
Land Management	-	-	-
Capital Improvements	250,000	-	-
Capital Equipment	630,862	-	-
Elections	54,243	-	-
Unassigned	3,527,375	-	-
Total Fund Balances	5,254,412	1,492,748	85,970
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 5,525,941	\$ 2,023,329	\$ 88,884

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

***EXHIBIT 3
(Continued)***

<u>Land Management</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 46,310
128,430	-	-	255,859
1,222	-	-	16,522
-	-	-	3,549
-	-	-	2,199
-	-	-	80,048
-	-	-	10,303
-	-	-	172,603
-	-	-	93,287
61,937	-	-	61,937
-	-	-	1,204
-	-	-	29,610
-	-	-	20,685
-	-	-	64,863
-	-	-	23,378
-	-	-	74,548
-	-	-	25,406
-	-	-	618,366
-	208,507	-	208,507
-	-	445,737	445,737
-	-	-	50,000
-	-	-	825,592
-	-	-	85,970
901,137	-	-	901,137
-	-	-	250,000
-	-	-	630,862
-	-	-	54,243
-	-	-	3,527,375
<u>1,092,726</u>	<u>208,507</u>	<u>445,737</u>	<u>8,580,100</u>
<u>\$ 1,257,584</u>	<u>\$ 386,976</u>	<u>\$ 446,559</u>	<u>\$ 9,729,273</u>

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

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**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2018**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS		\$ 8,580,100
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		62,468,245
Other long-term assets (deferred inflows of resources) are not available to pay for current-period expenditures and, therefore, are unavailable in the governmental funds.		247,177
Deferred outflows and inflows of resources related to pensions and other postemployment benefits are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to Pensions		1,745,487
Deferred Outflows of Resources Related to Other Postemployment Benefits		9,197
Deferred Inflows of Resources Related to Pensions		(2,560,173)
Long-term liabilities, including bonds payable and net pension liabilities, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General Obligation Bonds and Notes	\$ (5,490,000)	
Unamortized Bond Discount	642	
Unamortized Bond Premium	(126,244)	
Capital Lease	(120,857)	
Loans Payable	(373,235)	
Accrued Interest	(45,441)	
Compensated Absences	(390,759)	
Net Pension Liability	(3,358,484)	
Net Other Postemployment Benefits	(237,816)	(10,142,194)
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES		\$ 60,347,839

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	General	Public Works	Family Services
REVENUES			
Taxes	\$ 3,887,604	\$ 987,587	\$ 1,140,114
Special Assessments	-	-	-
Licenses and Permits	18,160	-	-
Intergovernmental	857,839	6,205,002	142,539
Charges for Services	1,275,442	507,466	-
Fines and Forfeits	37,281	-	-
Gifts and Contributions	1,225	-	-
Investment Earnings	156,913	9,885	-
Miscellaneous	195,251	24,242	-
Total Revenues	6,429,715	7,734,182	1,282,653
EXPENDITURES			
CURRENT			
General Government	2,430,084	-	3,352
Public Safety	2,214,081	-	-
Highways and Streets	-	6,011,957	-
Sanitation	-	517,308	-
Health	16,800	-	-
Culture and Recreation	416,337	-	-
Conservation of Natural Resources	138,122	-	-
Economic Development	500	-	-
INTERGOVERNMENTAL	211,166	363,392	1,283,658
DEBT SERVICE			
Principal	57,666	-	-
Interest	2,807	-	-
Administrative (fiscal) Charges	-	-	-
Total Expenditures	5,487,563	6,892,657	1,287,010
EXCESS OF REVENUES OVER EXPENDITURES	942,152	841,525	(4,357)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	(488,843)	-	-
Proceeds from Capital Lease	33,502	-	-
Total Other Financing Sources (Uses)	(455,341)	-	-
NET CHANGE IN FUND BALANCES	486,811	841,525	(4,357)
Fund Balances - Beginning of Year	4,767,601	643,188	90,327
INCREASE IN INVENTORY	-	8,035	-
FUND BALANCES - END OF YEAR	\$ 5,254,412	\$ 1,492,748	\$ 85,970

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

**EXHIBIT 5
(Continued)**

Land Management	Ditch	Debt Service	Total Governmental Funds
\$ 24,908	\$ -	\$ 311,035	\$ 6,351,248
218,543	71,962	-	290,505
24,452	-	-	42,612
660,339	-	38,821	7,904,540
2,167	-	-	1,785,075
-	-	-	37,281
-	-	-	1,225
38	-	-	166,836
20,310	-	-	239,803
<u>950,757</u>	<u>71,962</u>	<u>349,856</u>	<u>16,819,125</u>
50,906	-	-	2,484,342
-	-	-	2,214,081
-	-	-	6,011,957
308,021	-	-	825,329
-	-	-	16,800
-	-	-	416,337
333,379	-	-	471,501
-	-	-	500
-	-	-	1,858,216
28,328	75,000	683,237	844,231
4,233	9,594	140,661	157,295
-	495	1,235	1,730
<u>724,867</u>	<u>85,089</u>	<u>825,133</u>	<u>15,302,319</u>
225,890	(13,127)	(475,277)	1,516,806
-	-	488,843	488,843
-	-	-	(488,843)
-	-	-	33,502
<u>-</u>	<u>-</u>	<u>488,843</u>	<u>33,502</u>
225,890	(13,127)	13,566	1,550,308
866,836	221,634	432,171	7,021,757
-	-	-	8,035
<u>\$ 1,092,726</u>	<u>\$ 208,507</u>	<u>\$ 445,737</u>	<u>\$ 8,580,100</u>

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 1,550,308
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays 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.</p>		
Expenditures for General Capital Assets, Infrastructure, and Other Related Capital Asset Adjustments	\$ 1,762,123	
Net Book Value of Capital Asset Disposals	(37,343)	
Current Year Depreciation	<u>(2,167,401)</u>	(442,621)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		(182,202)
Governmental funds report pension and other postemployment contributions as expenditures when made. However, in the statement of activities, expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and the investment experience.		28,544
The issuance of long-term debt (e.g., bonds payable, loans payable) provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. The net proceeds for debt issuances are:		
Capital Lease		(33,502)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal Repayments		
General Obligation Bonds	725,000	
Capital Leases	57,666	
Loan Payments	<u>61,565</u>	844,231
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 Accrued Interest Payable	5,338	
Amortization of Discounts and Premiums	14,647	
Change in Compensated Absences	44,134	
Change in Other Postemployment Benefits	(27,983)	
Change in Inventory	<u>8,035</u>	<u>44,171</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 1,808,929</u></u>

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

FIDUCIARY FUNDS

**ROCK COUNTY
LUVERNE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2018**

ASSETS

Cash and Cash Equivalents	<u>\$ 1,558,997</u>
---------------------------	---------------------

LIABILITIES

Salaries Payable	\$ 8,149
Accounts Payable	506
Due to Other Governments	<u>1,550,342</u>
Total Liabilities	<u>\$ 1,558,997</u>

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

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**ROCK COUNTY
LIVERNE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2018. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

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

Discretely Presented Component Unit

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Unit (Continued)

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

Joint Ventures and Jointly-Governed Organizations

The County participates in several joint ventures described in Note 6.B.

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

Additionally, the County reports the following fiduciary fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor-Treasurer for the purpose of increasing earnings through investment activities. 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 2018 were \$132,692 for the County.

3. Receivables and Payables

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables (Continued)

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

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

Special assessments receivable consist of prior special assessments payable in the years 2012 through 2018 and noncurrent special assessments payable in 2019 and after. Unpaid special assessments at December 31 are classified in the financial statements as prior special assessments.

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

4. Inventories and Prepaid Items

All government-wide and fund inventories are valued at cost using the first in/first out method. Rock County Rural Water District inventories are valued at cost using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Restricted Assets

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

6. Capital Assets

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

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

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

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

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Compensated Absences

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

8. Long-Term Obligations

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Pension Plan

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

10. Deferred Outflows/Inflows of Resources

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Deferred Outflows/Inflows of Resources (Continued)

receivable, and grant monies receivable, for amounts that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under a modified accrual basis of accounting and accordingly, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also has an advance from other governments which is reported as a deferred inflow. The advance from other governments arises under both the modified and the full accrual basis of accounting. Advances are recognized when timing requirements have been met. The County and the Rock County Rural Water District also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

11. Unearned Revenue

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

12. Classification of Net Position

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Classification of Net Position (Continued)

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

13. Classification of Fund Balances

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

13. Classification of Fund Balances (Continued)

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

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

14. Minimum Fund Balance

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

15. Use of Estimates

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

2. Stewardship, Compliance and Accountability

A. Excess of Expenditures Over Budget

Expenditures exceeded budget in the following funds. Fund balance was available to cover overages.

Fund	Expenditures	Budgets	Excess
Major Governmental Funds:			
General Fund	\$ 5,487,563	\$ 5,147,952	\$ 339,611
Road and Bridge Fund	6,892,657	2,923,383	3,969,274
Family Services Fund	1,287,010	1,283,658	3,352

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

Reconciliation of the County's total deposits and cash on hand to the basic financial statements follows:

Government-wide statement of net position	
Governmental activities	
Cash and cash equivalents	\$ 8,911,930
Undistributed cash in agency funds	96,944
Statement of fiduciary net position	
Cash and cash equivalents	<u>1,558,997</u>
Total Cash and Cash Equivalents	<u>\$ 10,567,871</u>
Petty cash and change funds	\$ 1,843
Checking	7,175,861
Savings	806,570
Certificates of deposit	<u>2,583,597</u>
Total Deposits and Cash on Hand	<u>\$ 10,567,871</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

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. As of December 31, 2018, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage are available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31 2018, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

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

Rock County and the Rock County Rural Water District had no investments at December 31, 2018.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

2. Receivables

Receivables as of December 31, 2018, for the County's governmental activities are as follows:

	Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities:		
Taxes	\$ 13,806	\$ -
Special assessments	184,696	118,978
Accounts receivable	101,837	-
Interest	7,442	-
Loans receivable	255,859	224,433
Due from other governments	93,876	-
Total Governmental Activities	\$ 657,516	\$ 343,411

3. Loans Receivable

The General Fund has a loans receivable balance of \$127,429 as follows:

In March 2012, the County approved a \$150,000 loan to the Southwestern Mental Health Center, Inc., to bridge a financing gap for a building project. The loan is to be repaid with semi-annual repayments of \$3,336 each year, which includes interest on the unpaid principal at two percent beginning October 15, 2013, and ending March 1, 2043. The loan was issued during July 2013. As of December 31, 2018, the remaining balance on this loan is \$127,429.

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Loans Receivable (Continued)

The Land Management Special Revenue Fund has a \$128,430 loans receivable balance from septic loans issued in 2010 through 2018. Loans receivable activity for Minnesota Pollution Control Agency (MPCA) septic system loans is as follows:

Loans receivable, January 1, 2018	\$	155,074
Payments received during the year		<u>(26,644)</u>
 Loans Receivable	 \$	 <u>128,430</u>

4. Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 193,861	\$ -	\$ -	\$ 193,861
Right-of-way	1,019,021	-	-	1,019,021
Construction in progress	373,321	-	373,321	-
Works of art and historical treasures	620,000	-	-	620,000
	<u>\$ 2,206,203</u>	<u>\$ -</u>	<u>\$ 373,321</u>	<u>\$ 1,832,882</u>
Total capital assets not depreciated				
Capital assets depreciated				
Buildings	\$ 10,868,473	\$ 110,529	\$ -	\$ 10,979,002
Land improvements	242,912	-	-	242,912
Machinery, furniture, and equipment	7,798,223	375,041	284,191	7,889,073
Infrastructure	70,443,327	1,649,874	-	72,093,201
	<u>\$ 89,352,935</u>	<u>\$ 2,135,444</u>	<u>\$ 284,191</u>	<u>\$ 91,204,188</u>
Total capital assets depreciated				

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

4. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 3,351,614	\$ 211,183	\$ -	\$ 3,562,797
Land improvements	112,445	11,105	-	123,550
Machinery, furniture, and equipment	4,560,594	503,251	246,848	4,816,997
Infrastructure	20,623,619	1,441,862	-	22,065,481
Total accumulated depreciation	\$ 28,648,272	\$ 2,167,401	\$ 246,848	\$ 30,568,825
Total capital assets depreciated, net	\$ 60,704,663	\$ (31,957)	\$ 37,343	\$ 60,635,363
Capital Assets, Net	\$ 62,910,866	\$ (31,957)	\$ 410,664	\$ 62,468,245

Construction in progress consists of amounts completed on open road projects.

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

Governmental Activities:	
General government	\$ 225,685
Public safety	174,120
Highways and streets (including depreciation of infrastructure assets)	1,685,501
Sanitation	33,479
Culture and recreation	46,236
Conservation of natural resources	2,380
Total Depreciation Expense - Governmental Activities	\$ 2,167,401

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2018, is as follows:

Receivable Fund	Payable Fund	Amount
Public Works Special Revenue	Land Management Special Revenue	\$ 51

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2018, consisted of the following:

Transfer from General Fund to Debt Service Fund	\$	488,843	Transfer of wind production tax revenue
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C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2018, were as follows:

		<u>Primary Government</u>
Accounts payable	\$	175,373
Salaries payable		101,327
Contracts payable		75,032
Due to other governments		95,740
		95,740
Total Payables	\$	<u>447,472</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

2. Unearned Revenues/Deferred Inflows of Resources

Unearned revenues and deferred inflows of resources consist of special assessments, taxes, state and federal grants, and interest not collected soon enough after year-end to pay liabilities of the current period, and state and federal grants received but not yet earned. Unearned revenues and deferred inflows of resources at December 31, 2018, are summarized below by fund:

	<u>Special Assessments</u>	<u>Taxes</u>	<u>Grants</u>	<u>Interest</u>	<u>Total</u>
Governmental funds:					
General Fund	\$ -	\$ 7,977	\$ -	\$ 5,473	\$ 13,450
Special Revenue:					
Public Works	-	2,028	347,794	1,457	351,279
Family Services	-	2,914	-	-	2,914
Land Management	6,227	64	128,707	18	135,016
Ditch	178,469	-	-	-	178,469
Debt Service Fund	-	822	-	-	822
Total	<u>\$ 184,696</u>	<u>\$ 13,805</u>	<u>\$ 476,501</u>	<u>\$ 6,948</u>	<u>\$ 681,950</u>
Liability:					
Unearned revenue	\$ -	\$ -	\$ 98,103	\$ -	\$ 98,103
Deferred inflows of resources:					
Advance from other governments	-	-	336,670	-	336,670
Unavailable revenue	<u>184,696</u>	<u>13,805</u>	<u>41,728</u>	<u>6,948</u>	<u>247,177</u>
Total	<u>\$ 184,696</u>	<u>\$ 13,805</u>	<u>\$ 476,501</u>	<u>\$ 6,948</u>	<u>\$ 681,950</u>

3. Construction Commitments

Rock County did not have any active construction projects except for highway projects that are state-funded and, therefore, not obligations of the County at December 31, 2018.

4. Capital Leases

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Capital Leases (Continued)

Capital leases consist of the following at December 31, 2018:

Lease	Final Maturity	Installments	Payment Amount	Original Issue Amount	Outstanding Balance December 31, 2018
2014 Ford Interceptor Utility	2021	Monthly	\$ 424	\$ 34,978	\$ 11,807
2015 Ford Interceptor Utility	2019	Monthly	558	25,903	1,114
2015 Ford Interceptor Utility	2019	Monthly	515	23,789	1,027
2016 Ford Interceptor Utility	2019	Monthly	543	26,061	5,972
2017 Ford Interceptor Utility	2021	Monthly	558	25,460	13,566
2017 Ford Interceptor Utility	2021	Monthly	572	26,109	16,071
2018 Chevrolet Tahoe	2021	Monthly	714	32,587	24,057
2017 Ford Interceptor Sedan	2021	Monthly	524	23,934	17,669
2019 Chevrolet Tahoe	2022	Monthly	737	33,502	29,574
Total Capital Leases					<u>\$ 120,857</u>

Capital lease payments for the squad cars are paid for from the General Fund. At December 31, 2018 the County had total assets under capital lease of \$252,323 with related accumulated depreciation of \$112,252. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2018, were as follows:

Year Ending December 31	Governmental Activities
2019	\$ 50,461
2020	42,343
2021	27,572
2022	4,419
Total minimum lease payments	\$ 124,795
Less: amount representing interest	(3,938)
Present Value of Minimum Lease Payments	<u>\$ 120,857</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

5. Long-Term Debt

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2018
Special assessment bonds with government commitment					
2010 G.O. Ditch Bonds	2021	\$70,000 - \$85,000	1.25 - 3.50	<u>\$ 750,000</u>	\$ 245,000
Less: unamortized discounts					<u>(642)</u>
Special Assessment Bonds with Government Commitment, Net					<u>\$ 244,358</u>
General obligation bonds					
2015 G.O. Bonds, Series 2015B	2036	\$40,000 - \$70,000	3.00 - 3.75	\$ 1,190,000	\$ 1,100,000
2014 G.O. Capital Improvement Plan Bonds, Series 2014A	2025	\$320,000 - \$405,000	2.00 - 2.50	3,970,000	2,635,000
2012 G.O. Bonds, Series 2012A	2026	\$110,000 - \$270,000	2.00 - 2.40	<u>2,640,000</u>	<u>1,510,000</u>
Total general obligation bonds				<u>\$ 7,800,000</u>	\$ 5,245,000
Add: unamortized premium					<u>126,244</u>
Total General Obligation Bonds, Net					<u>\$ 5,371,244</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

5. Long-Term Debt (Continued)

Loans Payable

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

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

Type of Indebtedness	Final Maturity	Semi-Annual Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2018
Loans payable					
Rock River Clean Water Partnership	2023	\$18,007	2.000	\$ 162,471	\$ 77,123
Rock River Clean Water Partnership Phase II	2027	14,554	2.000	131,315	113,244
Lismore Telephone Company	2023	\$36,000	1.375	<u>360,000</u>	<u>182,868</u>
Total Loans Payable				<u>\$ 653,786</u>	<u>\$ 373,235</u>

**ROCK COUNTY
LIVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Debt Service Requirements

Payments on General Obligation Bonds are made by the Debt Service Fund and payments on Special Assessment Bonds are made by the Ditch Special Revenue Fund. Debt service requirements at December 31, 2018, were as follows:

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2019	\$ 655,000	\$ 124,150	\$ 80,000	\$ 7,075
2020	680,000	110,375	80,000	4,375
2021	690,000	96,175	85,000	1,488
2022	700,000	81,825	-	-
2023	555,000	66,843	-	-
2024 - 2028	1,440,000	155,097	-	-
2029 - 2033	325,000	65,850	-	-
2034 - 2036	200,000	12,250	-	-
Total	<u>\$ 5,245,000</u>	<u>\$ 712,565</u>	<u>\$ 245,000</u>	<u>\$ 12,938</u>

Debt payments on the Rock River Clean Water Partnership loans payable are made from the Land Management Special Revenue Fund and debt payments on the Lismore Telephone Company Note are made from the Debt Service Fund. Debt service requirements at December 31, 2018, were as follows:

Year Ending December 31	Loans Payable	
	Principal	Interest
2019	\$ 62,594	\$ 5,966
2020	63,641	4,919
2021	64,707	3,854
2022	65,790	2,770
2023	67,543	1,530
2024 - 2027	48,960	1,978
Total	<u>\$ 373,235</u>	<u>\$ 21,017</u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds payable	\$ 5,895,000	\$ -	\$ 650,000	\$ 5,245,000	\$ 655,000
Add: unamortized premiums	141,528	-	15,284	126,244	-
General obligation bonds payable, net	<u>\$ 6,036,528</u>	<u>\$ -</u>	<u>\$ 665,284</u>	<u>\$ 5,371,244</u>	<u>\$ 655,000</u>
Special assessment bonds with government commitment	\$ 320,000	\$ -	\$ 75,000	\$ 245,000	\$ 80,000
Less: unamortized discounts	(1,279)	-	(637)	(642)	-
Special assessment bonds with government commitment, net	<u>\$ 318,721</u>	<u>\$ -</u>	<u>\$ 74,363</u>	<u>\$ 244,358</u>	<u>\$ 80,000</u>
Total bonds payable	<u>\$ 6,355,249</u>	<u>\$ -</u>	<u>\$ 739,647</u>	<u>\$ 5,615,602</u>	<u>\$ 735,000</u>
Capital leases	145,021	33,502	57,666	120,857	48,254
Loans payable	434,800	-	61,565	373,235	62,594
Compensated absences	<u>346,626</u>	<u>220,408</u>	<u>176,275</u>	<u>390,759</u>	<u>51,675</u>
Governmental Activities Long-Term Liabilities	<u>\$ 7,281,696</u>	<u>\$ 253,910</u>	<u>\$ 1,035,153</u>	<u>\$ 6,500,453</u>	<u>\$ 897,523</u>

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

The County and the Rock County Rural Water District participates in the following cost-sharing, multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

General Employees Retirement Plan

All full-time and certain par-time employees of the County and the Rock County Rural Water District are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

Public Employees Police and Fire Plan

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA.

2. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can be modified only by the state legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan Benefits

General Employees Plan 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 PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive 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 Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equals 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement is the age for unreduced Social Security benefits capped at 66.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ration of the plan. If the General Employees Plan is at least 90 percent funded for two consecutive years, benefit recipients are given a 2.5 percent increase. If the plan has not exceeded 90 percent funded, or have fallen below 80 percent, benefit recipients are given a one percent increase. A benefit receipt who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receipt a pro rata increase.

Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0 percent increase. An annual adjustment will equal 2.5 percent any time the plan exceeds a 90 percent funded ration for two consecutive years. If the adjustment is increased to 2.5 percent and the funded ratio falls below 80 percent for one year or 85 percent for two consecutive years, the post-retirement benefit increase will be lowered to one percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

3. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018 and the County was required to contribute 7.50 percent for Coordinated Plan members. The County's contributions to the General Employees Fund for the year ended December 31, 2018, were \$221,620. The County's contributions were equal to the required contributions as set by state statute.

Police and Fire Fund Contributions

Plan members were required to contribute 10.80 percent of their annual covered salary and the County was required to contribute 16.20 percent of pay for members in fiscal year in 2018. The County's contributions to the Police and Fire Fund for the year ended December 31, 2018, were \$153,202. The County's contributions were equal to the required contributions as set by state statute.

4. Pension Costs

General Employees Retirement Plan

At December 31, 2018, the County reported a liability of \$2,423,692 for its proportionate share of the General Employees Retirement Fund's net pension liability. The County's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the County totaled \$79,345. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportionate share of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

received from all of PERA's participating employers. At June 30, 2018, the County's proportionate share was 0.0437 percent. It was 0.0463 percent measured as of June 30, 2017.

County's proportionate share of the net pension liability	\$	2,423,692
State of Minnesota's proportionate share of the net pension liability associated with the County		79,345
Total	\$	2,503,037

For the year ended December 31, 2018, the County recognized pension expense of \$143,935 for its proportionate share of the General Employees Plan's pension expense. In addition, the County recognized an additional \$18,503 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, the County reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 64,151	\$ 70,689
Difference between projected and actual investment earnings	-	247,663
Changes in actuarial assumptions	231,524	272,328
Changes in proportion	-	163,706
Contributions paid to PERA subsequent to the measurement date	114,732	-
Total	\$ 410,407	\$ 754,386

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

The \$114,732 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2019	\$ 6,006
2020	(176,311)
2021	(237,818)
2022	(50,588)

Public Employees Police and Fire Plan

At December 31, 2018, the County reported a liability of \$934,792 for its proportionate share of the Public Employees Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportionate share of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportionate share was 0.0877 percent. It was 0.0880 percent measured as of June 30, 2017. The County also recognized \$7,893 for the year ended December 31, 2018, as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Police and Fire Fund (Continued)

For the year ended December 31, 2018, the County recognized pension expense of \$125,245 for its proportionate share of the Police and Fire Plan's pension expense.

At December 31, 2018, the County reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 37,677	\$ 229,328
Difference between projected and actual investment earnings	-	195,795
Changes in actuarial assumptions	1,162,178	1,376,136
Changes in proportion	58,251	4,528
Contributions paid to PERA subsequent to the measurement date	76,974	-
Total	\$ 1,335,080	\$ 1,805,787

The \$76,974 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2019	\$ (2,725)
2020	(46,130)
2021	(128,135)
2022	(366,702)
2023	(3,989)

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2018, was \$295,576.

5. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees 1.0 percent per year for the Police and Fire Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase was changed from 1.0 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Police and Fire Fund

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year thereafter to 1.0 percent for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100 percent funding or July 1, 2048, if earlier.
- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019 and January 1, 2020 from 16.20 percent to 16.95 percent and 17.70 percent of pay, respectively, Interest credited on member contributions decreased from 4.00 percent to 3.00 percent beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	36%	5.10%
International stocks	17	5.30
Bonds	20	0.75
Alternative assets	25	5.90
Cash	2	0.00

6. Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Pension Liability Sensitivity

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

	<u>Proportionate Share of the</u>			
	<u>General Employees Retirement Plan</u>		<u>Public Employees Police and Fire Plan</u>	
	<u>Discount Rate</u>	<u>Net Pension Liability</u>	<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% Decrease	6.50%	\$ 3,938,810	6.50%	\$ 2,004,252
Current	7.50	2,423,692	7.50	934,792
1% Increase	8.50	1,173,005	8.50	50,392

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

8. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org.

B. Defined Contribution Plan

Nine of the elected officials of Rock County are covered by the Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA. The Defined Contribution 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. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary which is matched by the elected official’s employer. Employees who are paid for their services 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 two percent of employer contributions and twenty-five hundredths of one percent (0.25 percent) of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2018, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 5,775	\$ 5,775
Percentage of covered payroll	5%	5%

**ROCK COUNTY
LUVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

1. Plan Description

In addition to providing a pension benefits plan, the County provides postemployment health care benefits for eligible retired employees, spouses and dependents through a single-employer fully insured plan. The Plan does not issue a publicly available financial report.

2. Contributions

The County currently has no assets that have been irrevocably deposited into a trust for future health benefits. Rock County is funding this liability on a pay-as-you-go basis. For the year ended December 31, 2018, the County contributed \$16,699 to the plan.

3. Benefits Provided

Pursuant to Minnesota Statutes 471.61, subdivision 2b, Rock County provides postemployment health care benefits to certain retired employees. To be eligible for benefits, a participant must qualify to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and must not participate in any other health benefits program providing coverage similar to that herein described when they retire from active employment. Eligible retirees may continue coverage under the County's health benefits program. Pursuant to the provision of the plan, retirees are required to pay 100 percent of the total premium cost. As of December 31, 2018, there was one retiree and 67 active participants receiving health benefits from the County's health plan.

4. Total OPEB Liability

The County's total OPEB liability of \$237,816 was measured as of January 1, 2018 and was determined by an actuarial valuation as of January 1, 2018. The total OPEB liability was rolled-forward from the valuation date to fiscal year ended December 31, 2018 using generally accepted actuarial principles. The Schedule of Changes in the County's Total OPEB Liability and Related Ratios, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

5. Actuarial Assumptions and Other Inputs

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	3.00%
Health Care Trend Rates	6.50% grading to 5.00% over 6 years

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvements Scale with Blue Collar adjustments for Police and Fire Personnel.

The assumptions in the actuarial valuation are based on the results of periodic actuarial experience studies.

The discount rate was based on the estimated yield of 20 year AA rated municipal bonds as of the measurement date.

6. Summary of Changes in Actuarial Assumptions

- The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel)
- The retirement and withdrawal tables for all employees were updated.
- The discount rate was changed from 4.00% to 3.30%.

**ROCK COUNTY
LIVERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

7. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2017	\$ 225,306
Changes for the year:	
Service Cost	13,841
Interest Cost	7,866
Benefit Payments	(9,197)
Net Changes	12,510
Balance at December 31, 2018	\$ 237,816

8. Sensitivity Results

The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease (2.30%)	Discount Rate (3.30%)	1% Increase (4.30%)
Total OPEB Liability	\$ 256,461	\$ 237,816	\$ 220,328

The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1% Decrease (5.50% decreasing to 4.00%)	Discount Rate (6.50% decreasing to 5.00%)	1% Increase (7.50% decreasing to 6.00%)
Total OPEB Liability	\$ 211,393	\$ 237,816	\$ 269,034

**ROCK COUNTY
LUCERNE, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

8. OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended December 31, 2018, the County recognized OPEB expense of \$29,209. At December 31, 2018, the County reported no deferred inflows of resources and \$9,197 in deferred outflows of resources resulting from contributions subsequent to the measurement date which will be recognized as a reduction of the OPEB liability in the year ended December 31, 2019.

5. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2018 and \$500,000 in 2019. 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.

**ROCK COUNTY
LIVERNE, MINNESOTA**

5. Risk Management (Continued)

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

Lincoln-Pipestone Rural Water System

At December 31, 2018, the Lincoln-Pipestone Rural Water System had \$40,841,000 of general obligation bonds and other loans outstanding through 2056. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

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

B. Joint Ventures

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

Southwest Health and Human Services

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

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

SWHHS is governed by the:

- Joint Health and Human Services Board ("Joint Board") - responsible for financial, personnel, budget, and general administration of the agency, and is made up of one County Commissioner (or alternate) from each County serving on the Community Health Board, and one County Commissioner (or alternate) serving on the Human Services Board.

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Health and Human Services (Continued)

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

Financing is provided by state and federal grants and appropriations from member counties. Rock County's contribution in 2018 for the human services function was \$1,283,658 and its contribution to the health services function was \$118,666.

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

Lincoln-Pipestone Rural Water System

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2018, were \$40,841,000.

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

Rock Nobles Community Corrections

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

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

Rock Nobles Community Corrections is headquartered in Worthington, Minnesota, with offices at the county seats of the member counties. Financing is provided by state grants and appropriations from member counties. Rock County's contribution to Rock Nobles Community Corrections for the year ended December 31, 2018, was \$92,500.

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

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

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

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

In 2018, Rock County made contributions of \$16,178 to A.C.E. of Southwest Minnesota.

Plum Creek Library System

Rock County, along with 19 cities and 8 other counties, participates in the Plum Creek Library System. The Plum Creek Library System was created as a public library service on May 29, 1974, by the act of contracting with various public libraries in its region to provide expanded library service, with the additional purpose of furthering the public interest by providing the potential for extending public library services into areas without such services. The Plum Creek Library System is governed by a board of trustees which consists of two representatives from each county. One is appointed by the County Commissioners, the second from the board of the participating libraries. During 2018, Rock County did not contribute to the Plum Creek Library System.

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

7. New Government Accounting Standards

The County has adopted the following statement during the year ended December 31, 2018:

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which was effective for periods beginning after June 15, 2017. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit other postemployment benefits (OPEB), this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. Implementation of this pronouncement required additional disclosures related to OPEB in Note 3 to the County's financial statements.

8. 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. Separate financial statements are not prepared.

Measurement Focus and Basis of Presentation

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

8. Component Unit Disclosures

B. Detailed Notes

1. Assets and Deferred Outflows of Resources (Continued)

essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities. Operating expenses are all expenses incurred to provide services. Expenses not meeting this definition are reported as nonoperating expenses.

Deposits and Investments

The Rural Water District's cash is pooled and invested by the Rock County Auditor-Treasurer for the purpose of increasing earnings through investment activities. Investments are reported at fair value at December 31, 2018, based on market prices. Pooled investment earnings for 2018 were \$14,748.

Rock County is holding short-term investments of the Rural Water District. These certificates of deposit are for future expenditures on the distribution system and any other related expenditures. The total held by the County for the Rural Water District was \$1,175,000 at December 31, 2018.

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

Cash and cash equivalents	\$	2,019,065
Cash equivalents - restricted		1,175,000
Total Cash and Cash Equivalents	\$	3,194,065
Petty cash and change funds	\$	75
Checking		1,251,814
Savings		15,376
Certificates of deposit		1,926,800
Total Deposits	\$	3,194,065

**ROCK COUNTY
LUVERNE, MINNESOTA**

8. Component Unit Disclosures

B. Detailed Notes

1. Assets and Deferred Outflows of Resources (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Rural Waters District's deposits may not be returned to it. Rock County's policy is to minimize deposit custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2018, the County's deposits were not exposed to custodial credit risk.

Receivables

Receivables as of December 31, 2018, for the Rock County Rural Water District are as follows:

	Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts receivable	\$ 77,875	\$ -
Interest	8,412	-
Due from other governments	260,718	-
Total Receivables	\$ 347,005	\$ -
 Receivables - restricted		
Special assessments	\$ 739,110	\$ 666,232

**ROCK COUNTY
LIVERNE, MINNESOTA**

8. Component Unit Disclosures

B. Detailed Notes

1. Assets and Deferred Outflows of Resources (Continued)

Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land and right-of-way	\$ 110,370	\$ -	\$ -	\$ 110,370
Lewis and Clark project	655,332	-	-	655,332
Construction in progress	5,098,321	542,854	5,098,321	542,854
Expansion project	21,704	-	-	21,704
Total capital assets not depreciated	<u>\$ 5,885,727</u>	<u>\$ 542,854</u>	<u>\$ 5,098,321</u>	<u>\$ 1,330,260</u>
Capital assets depreciated				
Buildings and pumps	\$ 3,128,868	\$ 24,983	\$ -	\$ 3,153,851
Land improvements	11,649	-	-	11,649
Machinery, furniture, and equipment	560,497	60,193	39,186	581,504
Infrastructure - distribution system	4,476,742	5,161,510	-	9,638,252
Total capital assets depreciated	<u>\$ 8,177,756</u>	<u>\$ 5,246,686</u>	<u>\$ 39,186</u>	<u>\$ 13,385,256</u>
Less: accumulated depreciation for				
Buildings and pumps	\$ 2,006,420	\$ 83,755	\$ -	\$ 2,090,175
Land improvements	2,704	291	-	2,995
Machinery, furniture, and equipment	231,413	40,725	36,419	235,719
Infrastructure - distribution system	2,737,412	187,639	-	2,925,051
Total accumulated depreciation	<u>\$ 4,977,949</u>	<u>\$ 312,410</u>	<u>\$ 36,419</u>	<u>\$ 5,253,940</u>
Total capital assets depreciated, net	<u>\$ 3,199,807</u>	<u>\$ 4,934,276</u>	<u>\$ 2,767</u>	<u>\$ 8,131,316</u>
Capital Assets, Net	<u>\$ 9,085,534</u>	<u>\$ 5,477,130</u>	<u>\$ 5,101,088</u>	<u>\$ 9,461,576</u>

Construction in progress consists of amounts completed on the Blue Mound State Park distribution system project and the Supervisory Control and Data Acquisition (SCADA) project.

Depreciation expense for 2018 was \$312,410.

**ROCK COUNTY
LIVERNE, MINNESOTA**

8. Component Unit Disclosures

B. Detailed Notes (Continued)

2. Liabilities and Deferred Inflows of Resources

Payables

Payables at December 31, 2018, were as follows:

Accounts payable	\$ 43,938
Contracts payable	174,892
Salaries payable	<u>5,505</u>
Total Payables	<u>\$ 224,335</u>

Construction Commitments

As of December 31, 2018 construction commitments related to the Blue Mound State Park distribution system project total \$59,518.

Long-Term Debt

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

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

**ROCK COUNTY
LUVERNE, MINNESOTA**

8. Component Unit Disclosures

B. Detailed Notes

2. Liabilities and Deferred Inflows of Resources

Long-Term Debt (Continued)

Development loan to the USDA according to the General Obligation Water Revenue Bonds of 2016 repayment schedule.

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2018
USDA Rural Development Loan	2056	\$40,000- \$93,000	2.25	\$ 2,448,000	\$ 2,408,000
General obligation notes					
2000 G.O. Revenue Note	2019	\$14,000 - \$89,000	1.79	\$ 1,460,000	\$ 89,000
2007 G.O. Revenue Note	2026	\$16,000 - \$31,000	1.02	533,000	241,000
Total General Obligation Notes				\$ 1,993,000	\$ 330,000

Debt Service Requirements

Debt service requirements at December 31, 2018, were as follows:

Year Ending December 31	General Obligation Revenue Notes		General Obligation Temporary Water Bonds	
	Principal	Interest	Principal	Interest
2019	\$ 118,000	\$ 4,051	\$ 41,000	\$ 54,180
2020	29,000	2,162	42,000	53,257
2021	30,000	1,867	42,000	52,456
2022	30,000	1,561	44,000	51,368
2023	30,000	1,255	45,000	50,377
2024 - 2028	93,000	1,897	239,000	236,450
2029 - 2033	-	-	266,000	208,466
2034 - 2038	-	-	297,000	177,033
2039 - 2043	-	-	332,000	142,030
2044 - 2048	-	-	372,000	102,953
2049 - 2053	-	-	415,000	59,240
2054 - 2056	-	-	273,000	12,375
Total	\$ 330,000	\$ 12,793	\$ 2,408,000	\$ 1,200,185

**ROCK COUNTY
LIVERNE, MINNESOTA**

8. Component Unit Disclosures

B. Detailed Notes

2. Liabilities and Deferred Inflows of Resources (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
USDA Rural Development Loan	\$ 2,448,000	\$ -	\$ 40,000	\$ 2,408,000	\$ 41,000
G.O. revenue note 2000	176,000	-	87,000	89,000	89,000
G.O. revenue note 2007	270,000	-	29,000	241,000	29,000
Compensated absences	21,876	9,644	17,277	14,243	3,696
Total Long-Term Liabilities	<u>\$ 2,915,876</u>	<u>\$ 9,644</u>	<u>\$ 173,277</u>	<u>\$ 2,752,243</u>	<u>\$ 162,696</u>

C. Defined Benefit Pension Plans

1. Plan Description

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

2. Contributions

The Rural Water District's contributions for the General Employees Retirement Fund for the year ended December 31, 2018, were \$14,459. The contributions are equal to the contractually required contributions as set by state statute.

**ROCK COUNTY
LIVERNE, MINNESOTA**

8. Component Unit Disclosures

C. Defined Benefit Pension Plans (Continued)

3. Pension Costs

At December 31, 2018, the Rural Water District reported a liability of \$100,461 for its proportionate share of the General Employees Retirement Fund’s net pension liability. The Rural Water District’s net pension liability reflected a reduction due to the State of Minnesota’s contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state’s contribution meets the definition of a special funding situation. The State of Minnesota’s proportionate share of the net pension liability associated with the Rural Water District totaled \$3,289. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Rural Water District’s proportionate share of the net pension liability was based on the District’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2018, the Rural Water District’s proportionate share was 0.0018 percent. It was 0.0020 percent measured as of June 30, 2017.

Rural Water District’s proportionate share of the net pension liability	\$	100,461
State of Minnesota’s proportionate share of the net pension liability associated with the Rural Water District		3,289

Total	\$	103,750

For the year ended December 31, 2018, the Rural Water District recognized pension expense of \$5,966 for its proportionate share of the General Employees Plan’s pension expense. In addition, the Rural Water District recognized an additional \$767 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$16 million to the General Employees Fund.

**ROCK COUNTY
LIVERNE, MINNESOTA**

8. Component Unit Disclosures

C. Defined Benefit Pension Plans

3. Pension Costs (Continued)

At December 31, 2018, the Rural Water District reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,659	\$ 2,930
Difference between projected and actual investment earnings	-	10,266
Changes in actuarial assumptions	9,597	11,288
Changes in proportion	-	6,786
Contributions paid to PERA subsequent to the measurement date	4,756	-
Total	\$ 17,012	\$ 31,270

The \$4,756 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2019	\$ 249
2020	(7,308)
2021	(9,857)
2022	(2,098)

**ROCK COUNTY
LIVERNE, MINNESOTA**

8. Component Unit Disclosures

C. Defined Benefit Pension Plans

4. Pension Liability Sensitivity

The following presents the Rural Water District's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Rural Water District's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.50%)	Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 163,263	\$ 100,461	\$ 48,621

D. Other Postemployment Benefits (OPEB)

1. Plan Description

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

2. Total OPEB Liability

The Rural Water District's total OPEB liability of \$3,158 was measured as of January 1, 2018 and was determined by an actuarial valuation as of January 1, 2018. The total OPEB liability was rolled-forward from the valuation date to fiscal year ended December 31, 2018 using generally accepted actuarial principals.

The Schedule of Changes in the Total OPEB Liability and Related Ratios, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information.

**ROCK COUNTY
LIVERNE, MINNESOTA**

8. Component Unit Disclosures

D. Other Postemployment Benefits (OPEB) (Continued)

3. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2017	\$ 2,395
Changes for the year:	
Service Cost	662
Interest Cost	101
Net Changes	763
Balance at December 31, 2018	\$ 3,158

4. Sensitivity Results

The following presents the total OPEB liability of the Rural Water District, as well as what the Rural Water District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease (2.30%)	Discount Rate (3.30%)	1% Increase (4.30)%
Total OPEB Liability	\$ 3,683	\$ 3,158	\$ 2,689

The following presents the total OPEB liability of the Rural Water District, as well as what the Rural Water District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1% Decrease (5.50% decreasing to 4.00%)	Discount Rate (6.50% decreasing to 5.00%)	1% Increase (7.50% decreasing to 6.00%)
Total OPEB Liability	\$ 2,454	\$ 3,158	\$ 4,059

4. OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended December 31, 2018, the Rural Water District recognized OPEB expense of \$763. At December 31, 2018, the Rural Water District reported no deferred inflows of resources and no deferred outflows of resources.

**ROCK COUNTY
LIVERNE, MINNESOTA**

8. Component Unit Disclosures

E. Risk Management

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

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REQUIRED SUPPLEMENTARY INFORMATION

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 3,323,573	\$ 3,323,573	\$ 3,887,604	\$ 564,031
Licenses and Permits	2,200	2,200	18,160	15,960
Intergovernmental	502,463	502,463	857,839	355,376
Charges for Services	1,247,616	1,247,616	1,275,442	27,826
Fines and Forfeits	17,000	17,000	37,281	20,281
Gifts and Contributions	-	-	1,225	1,225
Investment Earnings	60,000	60,000	156,913	96,913
Miscellaneous	171,400	171,400	195,251	23,851
Total Revenues	5,324,252	5,324,252	6,429,715	1,105,463
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Commissioners	226,259	226,259	244,061	(17,802)
District Court	25,000	25,000	71,863	(46,863)
Law Library	-	-	15,988	(15,988)
County Administration	177,129	177,129	181,954	(4,825)
Auditor - Treasurer	388,064	388,064	360,162	27,902
Elections	44,700	44,700	63,390	(18,690)
Accounting and Auditing	35,000	35,000	34,900	100
Data Processing	214,379	214,379	230,302	(15,923)
Attorney	202,650	202,650	199,800	2,850
Land Records	409,908	409,908	400,776	9,132
Recorder's Technology	21,500	21,500	40,835	(19,335)
Building and Plant	317,518	317,518	412,772	(95,254)
Veterans Service Officer	40,150	40,150	36,422	3,728
Transportation	-	-	25,852	(25,852)
Heartland Building	-	-	2,480	(2,480)
Equipment	135,000	135,000	108,527	26,473
Total General Government	2,237,257	2,237,257	2,430,084	(192,827)
PUBLIC SAFETY				
Sheriff	1,874,072	1,874,072	1,903,845	(29,773)
Coroner	10,000	10,000	11,580	(1,580)
Forfeitures	-	-	7,722	(7,722)
Gun Permits	-	-	2,782	(2,782)
E-911 System	-	-	123,866	(123,866)
Prisoner Care	150,000	150,000	109,747	40,253
Emergency Services	51,348	51,348	49,982	1,366
Other	-	-	4,557	(4,557)
Total Public Safety	2,085,420	2,085,420	2,214,081	(128,661)

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES				
CURRENT				
HEALTH				
Community Health	\$ 16,800	\$ 16,800	\$ 16,800	\$ -
CULTURE AND RECREATION				
Historical Society	35,000	35,000	35,000	-
Minnesota Trails	-	-	12,607	(12,607)
Senior Citizens	26,204	26,204	22,612	3,592
Library	317,642	317,642	306,287	11,355
Heritage Museum	50,074	50,074	34,911	15,163
Other	4,920	4,920	4,920	-
Total Culture and Recreation	433,840	433,840	416,337	17,503
CONSERVATION OF NATURAL RESOURCES				
Extension	133,912	133,912	122,122	11,790
Agricultural Society	16,000	16,000	16,000	-
Total Conservation of Natural Resources	149,912	149,912	138,122	11,790
ECONOMIC DEVELOPMENT				
Tourism	1,940	1,940	500	1,440
INTERGOVERNMENTAL				
Community Corrections	92,500	92,500	92,500	-
Health	118,666	118,666	118,666	-
State Collections	11,617	11,617	-	11,617
Total Intergovernmental	222,783	222,783	211,166	11,617
DEBT SERVICE				
Principal	-	-	57,666	(57,666)
Interest	-	-	2,807	(2,807)
Total Debt Service	-	-	60,473	(60,473)
Total Expenditures	5,147,952	5,147,952	5,487,563	(339,611)

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 176,300	\$ 176,300	\$ 942,152	\$ 765,852
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	-	(488,843)	(488,843)
Proceeds from Capital Lease	-	-	33,502	33,502
Total Other Financing Sources (Uses)	-	-	(455,341)	(455,341)
NET CHANGE IN FUND BALANCE	<u>\$ 176,300</u>	<u>\$ 176,300</u>	486,811	<u>\$ 310,511</u>
Fund Balance - Beginning of Year			4,767,601	
FUND BALANCE - END OF YEAR			<u>\$ 5,254,412</u>	

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
PUBLIC WORKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 973,854	\$ 973,854	\$ 987,587	\$ 13,733
Intergovernmental	1,400,849	1,400,849	6,205,002	4,804,153
Charges for Services	498,180	498,180	507,466	9,286
Investment Earnings	3,000	3,000	9,885	6,885
Miscellaneous	47,500	47,500	24,242	(23,258)
Total Revenues	2,923,383	2,923,383	7,734,182	4,810,799
EXPENDITURES				
CURRENT				
HIGHWAY AND STREETS				
Administration	258,799	258,799	254,543	4,256
Maintenance	1,094,672	1,094,672	1,079,771	14,901
Construction	320,598	320,598	3,913,315	(3,592,717)
Equipment and Maintenance Shops	641,059	641,059	643,133	(2,074)
Material and Services for Resale	83,500	83,500	34,749	48,751
Other	93,975	93,975	86,446	7,529
Total Highways and Streets	2,492,603	2,492,603	6,011,957	(3,519,354)
SANITATION				
Solid Waste	430,780	430,780	517,308	(86,528)
INTERGOVERNMENTAL				
Highways and Streets	-	-	363,392	(363,392)
Total Expenditures	2,923,383	2,923,383	6,892,657	(3,969,274)
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	841,525	<u>\$ 841,525</u>
Fund Balance - Beginning of Year			643,188	
Increase in Inventory			8,035	
FUND BALANCE - END OF YEAR			<u>\$ 1,492,748</u>	

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,175,053	\$ 1,175,053	\$ 1,140,114	\$ (34,939)
Intergovernmental	108,605	108,605	142,539	33,934
Total Revenues	1,283,658	1,283,658	1,282,653	(1,005)
EXPENDITURES				
CURRENT				
General Government	-	-	3,352	(3,352)
INTERGOVERNMENTAL				
Human Services	1,283,658	1,283,658	1,283,658	-
Total Expenditures	1,283,658	1,283,658	1,287,010	(3,352)
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	(4,357)	<u>\$ (4,357)</u>
Fund Balance - Beginning of Year			90,327	
FUND BALANCE - END OF YEAR			<u>\$ 85,970</u>	

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
LAND MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 25,574	\$ 25,574	\$ 24,908	\$ (666)
Special Assessments	234,020	234,020	218,543	(15,477)
Licenses and Permits	55,200	55,200	24,452	(30,748)
Intergovernmental	383,864	383,864	660,339	276,475
Charges for Services	3,000	3,000	2,167	(833)
Investment Earnings	-	-	38	38
Miscellaneous	17,290	17,290	20,310	3,020
Total Revenues	718,948	718,948	950,757	231,809
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Planning and Zoning	56,943	56,943	50,906	6,037
SANITATION				
Recycling	132,801	132,801	124,464	8,337
Hazardous Waste	27,219	27,219	22,965	4,254
Environmental Office	147,714	147,714	159,452	(11,738)
Contingency	-	-	1,140	(1,140)
Total Sanitation	307,734	307,734	308,021	(287)
CONSERVATION OF NATURAL RESOURCES				
Agricultural Inspection	11,777	11,777	10,448	1,329
Water Planning	371,218	371,218	322,931	48,287
Total Conservation of Natural Resources	382,995	382,995	333,379	49,616
DEBT SERVICE				
Principal	-	-	28,328	(28,328)
Interest	-	-	4,233	(4,233)
Total Debt Service	-	-	32,561	(32,561)
Total Expenditures	747,672	747,672	724,867	22,805
NET CHANGE IN FUND BALANCE	\$ (28,724)	\$ (28,724)	225,890	\$ 254,614
Fund Balance - Beginning of Year			866,836	
FUND BALANCE - END OF YEAR			\$ 1,092,726	

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-5

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Special Assessments	\$ 65,923	\$ 65,923	\$ 71,962	\$ 6,039
DEBT SERVICE				
Principal	75,000	75,000	75,000	-
Interest	9,594	9,594	9,594	-
Administrative (fiscal) Charges	495	495	495	-
Total Debt Service	<u>85,089</u>	<u>85,089</u>	<u>85,089</u>	<u>-</u>
Total Expenditures	<u>85,089</u>	<u>85,089</u>	<u>85,089</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ (19,166)</u>	<u>\$ (19,166)</u>	(13,127)	<u>\$ 6,039</u>
Fund Balance - Beginning of Year			<u>221,634</u>	
FUND BALANCE - END OF YEAR			<u>\$ 208,507</u>	

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF CHANGES IN THE TOTAL
OPEB LIABILITY AND RELATED RATIOS
LAST TEN YEARS ENDED DECEMBER 31**

Total OPEB Liability - County	
Service Cost	\$ 13,841
Interest Cost	7,866
Benefit Payments	<u>(9,197)</u>
Net change in total OPEB liability	12,510
Total OPEB liability - beginning	<u>225,306</u>
Total OPEB liability - ending	<u><u>\$ 237,816</u></u>
Covered-employee payroll	\$ 3,670,839
Total OPEB Liability as a percentage of covered-employee payroll	5.93%
Total OPEB Liability - Rural Water	
Service Cost	\$ 662
Interest Cost	101
Benefit Payments	<u>-</u>
Net change in total OPEB liability	763
Total OPEB liability - beginning	<u>2,395</u>
Total OPEB liability - ending	<u><u>\$ 3,158</u></u>
Covered-employee payroll	\$ 187,466
Total OPEB Liability as a percentage of covered-employee payroll	1.60%

Note 1: The County implemented GASB Statement No. 75 in 2018, and the above table will be expanded to ten years of information as the information becomes available.

Note 2: No assets are accumulated in a trust.

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
ROCK COUNTY**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Rock County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.0437%	\$ 2,423,692	\$ 79,345	\$ 2,503,037	\$ 2,934,027	82.61%	79.53%
2017	0.0463	2,953,010	37,120	2,990,130	2,979,166	99.12	75.90
2016	0.0465	3,677,988	49,385	3,727,373	2,888,049	127.35	68.91
2015	0.0472	2,445,941	N/A	2,445,941	2,821,447	86.69	78.19

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-8

**SCHEDULE OF PENSION CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
ROCK COUNTY**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2018	\$ 221,620	\$ 221,620	-	\$ 2,954,923	7.50%
2017	208,680	208,680	-	2,782,396	7.50
2016	211,506	211,506	-	2,820,068	7.50
2015	215,092	215,092	-	2,867,883	7.50

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-9

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
ROCK COUNTY RURAL WATER DISTRICT**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Rock County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.0018%	\$ 100,461	\$ 3,289	\$ 103,750	\$ 121,615	82.61%	79.53%
2017	0.0020	130,430	1,639	132,069	131,507	99.18	75.90
2016	0.0021	268,091	2,221	270,312	129,864	206.44	68.91
2015	0.0041	212,691	N/A	212,691	192,861	110.28	78.19

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-10

**SCHEDULE OF PENSION CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
ROCK COUNTY RURAL WATER DISTRICT**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2018	\$ 14,459	\$ 14,459	-	\$ 192,787	7.50%
2017	16,355	16,355	-	218,067	7.50
2016	15,069	15,069	-	200,918	7.50
2015	16,196	16,196	-	215,949	7.50

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-11

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
ROCK COUNTY**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.087%	\$ 934,792	\$ 922,874	101.29%	88.84%
2017	0.088	1,188,105	899,911	132.02	85.43
2016	0.085	3,411,198	815,040	418.53	63.88
2015	0.085	965,799	778,164	124.11	86.61

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT A-12

**SCHEDULE OF PENSION CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
ROCK COUNTY**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2018	\$ 153,202	\$ 153,202	\$ -	\$ 945,690	16.20%
2017	144,699	144,699	-	893,203	16.20
2016	137,330	137,330	-	847,714	16.20
2015	133,086	133,086	-	821,517	16.20

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

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

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

<u>Fund</u>	<u>Expenditures</u>	<u>Budgets</u>	<u>Excess</u>
Major Governmental Funds:			
General Fund	\$ 5,487,563	\$ 5,147,952	\$ 339,611
Road and Bridge Fund	6,892,657	2,923,383	3,969,274
Family Services Fund	1,287,010	1,283,658	3,352

**ROCK COUNTY
LIVERNE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

5. Other Postemployment Benefits - Funding Status

Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the accrued liability for postemployment benefits is zero. See Note 3.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

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

2012

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

Actuarial Assumptions

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

2015

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

Actuarial Assumptions

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

**ROCK COUNTY
LIVERNE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018

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

2015

Actuarial Assumptions (Continued)

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

Plan Provisions

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

2018

The County obtained an actuarial valuation as of January 1, 2018. Since the actuarial valuation as of January 1, 2015, the following assumptions have changed:

- The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel)
- The retirement and withdrawal tables for all employees were updated.
- The discount rate was changed from 4.00% to 3.30%.

**ROCK COUNTY
LIVERNE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

7. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30:

General Employees Retirement Plan

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase was changed from 1.0% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5 % per year thereafter.

2016

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

**ROCK COUNTY
LIVERNE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

7. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

Public Employees Police and Fire Plan

2018

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0% per year through 2064 and 2.5% per year, thereafter, to 1.0% for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100 percent funding or July 1, 2048, if earlier.
- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019 and January 1, 2020 from 16.20 percent to 16.95 percent and 17.70 percent of pay, respectively, Interest credited on member contributions decreased from 4.00 percent to 3.00 percent beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30% for vested and non-vested deferred members. The CSA has been changed to 33% for vested members and 2% for non-vested members.

**ROCK COUNTY
LIVERNE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018

7. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

Public Employees Police and Fire Plan

2017

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
-
- The assumed post-retirement benefit increase rate was changed from 1.00% for all years to 1.00% per year through 2064 and 2.50% thereafter.
- The single discount rate was changed from 5.6% per annum to 7.5% percent per annum.

2016

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

SUPPLEMENTARY INFORMATION

GOVERNMENTAL FUNDS

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 808,863	\$ 808,863	\$ 311,035	\$ (497,828)
Intergovernmental	29,579	29,579	38,821	9,242
Total Revenues	838,442	838,442	349,856	(488,586)
EXPENDITURES				
DEBT SERVICE				
Principal	683,237	683,237	683,237	-
Interest	140,413	140,413	140,661	(248)
Administrative (fiscal) Charges	1,487	1,487	1,235	252
Total Expenditures	825,137	825,137	825,133	4
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	13,305	13,305	(475,277)	(488,582)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	488,843	488,843
NET CHANGE IN FUND BALANCE	\$ 13,305	\$ 13,305	13,566	\$ 261
Fund Balance - Beginning of Year			432,171	
FUND BALANCE - END OF YEAR			\$ 445,737	

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AGENCY FUNDS

**ROCK COUNTY
LIVERNE, MINNESOTA**

AGENCY FUNDS

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

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

Rock Youth Fellowship – to account for the collection and disbursement of funds for the Rock Youth Fellowship Program.

Buffalo Ridge Regional Rail Authority – to account for the collection and disbursement of funds for the Buffalo Ridge Regional Rail Authority.

Taxes and Penalties – to account for the collection of taxes and penalties and their distribution to the various fund and government units.

Rock Soil and Water Conservation District – to account for the collection and disbursements of funds for Rock Soil and Water Conservation District.

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
ROCK NOBLES COMMUNITY CORRECTIONS				
ASSETS				
Cash and Cash Equivalents	\$ 273,931	\$ 814,785	\$ 775,794	\$ 312,922
LIABILITIES				
Salaries Payable	\$ 11,563	\$ 23,682	\$ 27,096	\$ 8,149
Due to Other Governments	262,368	791,103	748,698	304,773
Total Liabilities	\$ 273,931	\$ 814,785	\$ 775,794	\$ 312,922
BIG BUDDIES				
ASSETS				
Cash and Cash Equivalents	\$ 634	\$ 9,990	\$ 10,184	\$ 440
LIABILITIES				
Due to Other Governments	\$ 634	\$ 9,990	\$ 10,184	\$ 440
ROCK YOUTH FELLOWSHIP				
ASSETS				
Cash and Cash Equivalents	\$ 506	\$ -	\$ -	\$ 506
LIABILITIES				
Accounts Payable	\$ 506	\$ -	\$ -	\$ 506
BUFFALO RIDGE REGIONAL AUTHORITY				
ASSETS				
Cash and Cash Equivalents	\$ 46,498	\$ 1,133	\$ 1,681	\$ 45,950
LIABILITIES				
Due to Other Governments	\$ 46,498	\$ 1,133	\$ 1,681	\$ 45,950

**ROCK COUNTY
LIVERNE, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
ASSETS				
Cash and Cash Equivalents	\$ 230,403	\$ 16,354,779	\$ 16,423,259	\$ 161,923
LIABILITIES				
Due to Other Governments	\$ 230,403	\$ 16,354,779	\$ 16,423,259	\$ 161,923
ROCK SOIL AND WATER CONSERVATION DISTRICT				
ASSETS				
Cash and Cash Equivalents	\$ 1,002,357	\$ 869,119	\$ 834,220	\$ 1,037,256
LIABILITIES				
Due to Other Governments	\$ 1,002,357	\$ 869,119	\$ 834,220	\$ 1,037,256
TOTAL ALL AGENCY FUNDS				
ASSETS				
Cash and Cash Equivalents	\$ 1,554,329	\$ 18,049,806	\$ 18,045,138	\$ 1,558,997
LIABILITIES				
Salaries Payable	\$ 11,563	\$ 23,682	\$ 27,096	\$ 8,149
Accounts Payable	506	-	-	506
Due to Other Governments	1,542,260	18,026,124	18,018,042	1,550,342
Total Liabilities	\$ 1,554,329	\$ 18,049,806	\$ 18,045,138	\$ 1,558,997

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OTHER SCHEDULES

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Primary Government</u>	<u>Discretely Presented Component Unit Rock County Rural Water District</u>
Appropriations and Shared Revenue		
State		
Highway Users Tax	\$ 5,302,349	\$ -
Market Value Credit	155,780	-
PERA Rate Reimbursement	29,361	1,378
Disparity Reduction Aid	6,899	-
County Program Aid	520,654	-
Police Aid	104,401	-
Enhanced 911	80,798	-
Riparian Protection Aid	118,462	-
SCORE	67,729	-
Total Appropriations and Shared Revenue	\$ 6,386,433	\$ 1,378
Reimbursement for Services		
Local		
Beaver Creek Township	\$ 33,855	\$ -
City of Luverne	146,729	-
Total Reimbursements for Services	\$ 180,584	\$ -
Payments		
Local		
Local Contributions	\$ 360,311	\$ -
Payments in Lieu of Taxes	80,392	-
Total Payments	\$ 440,703	\$ -
Grants		
Local		
Blandin Foundation	\$ 75,000	\$ -
State		
Minnesota Department/Board of Health	\$ -	\$ 4,605
Natural Resources	33,899	522,440
Secretary of State	39,158	-
Veterans Affairs	7,500	-
Water and Soil Resources	109,600	-
Transportation	18,422	-
Total State	\$ 208,579	\$ 527,045
Federal		
Department of Agriculture	\$ -	\$ 55,793
Transportation	595,047	-
Homeland Security	18,194	-
Total Federal	\$ 613,241	\$ 55,793
Total State and Federal Grants	\$ 821,820	\$ 582,838
Total Intergovernmental Revenue	\$ 7,904,540	\$ 584,216

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ROCK COUNTY RURAL WATER DISTRICT

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT E-1

**ROCK COUNTY RURAL WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 2,019,065
Accounts Receivable	77,875
Accrued Interest Receivable	8,412
Due From Other Governments	260,718
Inventories	54,722
Prepaid Items	8,160
Total Current Assets	<u>2,428,952</u>

RESTRICTED ASSETS

Cash Equivalents	1,175,000
Special Assessments - Noncurrent	739,110
Total Restricted Assets	<u>1,914,110</u>

NONCURRENT ASSETS

Capital Assets	
Non-Depreciable	1,330,260
Depreciable - Net of Accumulated Depreciation	8,131,316
Total Noncurrent Assets	<u>9,461,576</u>
Total Assets	13,804,638

DEFERRED OUTFLOWS OF RESOURCES

Pension Related	17,012
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**ROCK COUNTY
LIVERNE, MINNESOTA**

**EXHIBIT E-1
(Continued)**

**ROCK COUNTY RURAL WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$	218,830
Salaries Payable		5,505
Accrued Interest Payable		55,530
Customer Deposits		6,833
Compensated Absences		3,696
Notes Payable		118,000
Loans Payable		41,000
Total Current Liabilities		449,394
 NONCURRENT LIABILITIES		
Compensated Absences		10,547
Notes Payable		212,000
Loans Payable		2,367,000
Net Pension Liability		100,461
Net Other Postemployment Benefits Obligation		3,158
Total Noncurrent Liabilities		2,693,166
Total Liabilities		3,142,560
 DEFERRED INFLOWS OF RESOURCES		
Pension Related		31,270
 NET POSITION		
Net Investment in Capital Assets		6,723,576
Restricted For:		
Rural Water Distribution System		1,914,110
Short Lived Assets		228,500
Unrestricted		1,781,634
Total Net Position	\$	10,647,820

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**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT E-2

**ROCK COUNTY RURAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018**

OPERATING REVENUE	
Changes for Services	\$ 928,498
Miscellaneous	88,317
Total Operating Revenue	1,016,815
OPERATING EXPENSES	
Personal Services	248,716
Office Expense	50,206
Operations	52,664
Materials	120,880
Utilities	79,601
Depreciation	312,410
Total Operating Expenses	864,477
OPERATING INCOME	152,338
NONOPERATING REVENUES (EXPENSES)	
Intergovernmental Revenues	528,423
Interest on Non-Restricted Cash and Cash Equivalents	23,478
Interest on Restricted Cash and Cash Equivalents	16,615
Interest on Long-Term Debt	(58,855)
Lewis and Clark Expense	(115,395)
Total Nonoperating Revenue (Expenses)	394,266
INCOME BEFORE CONTRIBUTIONS	546,604
CAPITAL CONTRIBUTIONS	
Assessments	179,755
USDA Capital Grant	55,793
Total Capital Contributions	235,548
CHANGE IN NET POSITION	782,152
Net Position - Beginning	9,865,668
NET POSITION - ENDING	\$ 10,647,820

**ROCK COUNTY
LIVERNE, MINNESOTA**

EXHIBIT E-3

**ROCK COUNTY RURAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Services	\$ 992,343
Cash Paid to Employees for Services	(264,071)
Cash Paid to Suppliers for Goods and Services	(253,379)
Net Cash Provided by Operating Activities	<u>474,893</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Intergovernmental Receipts	299,043
Lewis and Clark Expense	(115,395)
Net Cash Used by Noncapital Financing Activities	<u>183,648</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(513,560)
Principal Paid on Revenue Notes	(156,000)
Interest Paid on Revenue Notes	(60,985)
Capital Contributions - Special Assessments	141,194
Capital Contributions - USDA Capital Grant	55,793
Net Cash Used by Capital and Related Financing Activities	<u>(533,558)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received on Nonrestricted Cash and Cash Equivalents	23,478
Interest Received on Restricted Cash and Cash Equivalents	10,830
Net Cash Provided by Investing Activities	<u>34,308</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	159,291
Cash and Cash Equivalents - Beginning of Year	<u>3,034,774</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 3,194,065</u></u>

**ROCK COUNTY
LUVERNE, MINNESOTA**

**EXHIBIT E-3
(Continued)**

**ROCK COUNTY RURAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018**

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY
OPERATING ACTIVITIES**

Operating Income	\$ 152,338
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation Expense	312,410
(Increase) Decrease in Inventories	31,952
(Increase) Decrease in Accounts Receivable	(16,052)
(Increase) Decrease in Prepaid Items	(4,904)
(Increase) Decrease in Deferred Pension Outflows	14,545
Increase (Decrease) in Other Postemployment Benefits	2,219
Increase (Decrease) in Accounts Payable	22,924
Increase (Decrease) in Salaries Payable	934
Increase (Decrease) in Compensated Absences	(7,633)
Increase (Decrease) in Customer Deposits	(8,420)
Increase (Decrease) in Net Pension Liability	(29,969)
Increase (Decrease) in Deferred Pension Inflows	4,549
Net Cash Provided by Operating Activities	<u>\$ 474,893</u>



INDEPENDENT AUDITORS' 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
Luverne, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County (the County), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Rock County's basic financial statements, and have issued our report thereon dated September 6, 2019.

Internal Control Over Financial Reporting

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

A deficiency in internal control 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 a 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

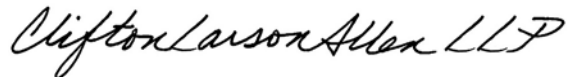
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Alexandria, Minnesota
September 6, 2019

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of County Commissioners
Rock County, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rock County (the County) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 6, 2019.

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

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

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Alexandria, Minnesota
September 6, 2019