

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA
(A COMPONENT UNIT OF NOBLES COUNTY)

YEAR ENDED DECEMBER 31, 2015

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA
(A COMPONENT UNIT OF NOBLES COUNTY)**

Year Ended December 31, 2015



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

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**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

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**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

ORGANIZATION
2015

Office	Name	Term Expires
Executive Board		
Nobles County Commissioner	Matthew Widboom	January 2016
Nobles County Commissioner	Robert S. Demuth, Jr.	January 2017
Rock County Commissioner	Kenneth Hoime ¹	January 2017
Rock County Commissioner	Jody Reisch	January 2017
Rock County Sheriff	Evan Verbrugge	January 2016
Appointees	David Benson	January 2018
	Mike Harmon ²	January 2018
Advisory Board		
Nobles County Chief Deputy	Chris Dybevic	January 2017
Appointees	Lee McAllister	January 2016
	Sara Wahl	January 2016
	Stephanie Pierce ¹	January 2016
	Tara Thompson ²	January 2018
Position		
Director	Jon Ramlo	Indefinite
Fiscal Officer	Kyle Oldre	Indefinite

¹Chair 2015

²Vice Chair 2015

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Executive Board
Rock Nobles Community Corrections
Worthington, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of Rock Nobles Community Corrections, a component unit of Nobles County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Community Corrections' basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Community Corrections' 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 Community Corrections' 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 and the General Fund of Rock Nobles Community Corrections as of December 31, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

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

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Rock Nobles Community Corrections' basic financial statements. The Schedule of Intergovernmental Revenue is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Intergovernmental Revenue is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2016, on our consideration of Rock Nobles Community Corrections' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rock Nobles Community Corrections' internal control over financial reporting and compliance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

July 21, 2016

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(Unaudited)**

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of Rock Nobles Community Corrections' financial activities for the fiscal year ended December 31, 2015. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

FINANCIAL REPORTING ENTITY

Rock Nobles Community Corrections was created pursuant to the provisions of the Community Corrections Act, January 1, 1979. The Community Corrections provides probation and parole services to the far southwestern Minnesota counties of Nobles and Rock; it is responsible for juvenile and adult cases. The Community Corrections is staffed with corrections professionals.

Program planning is the responsibility of an Advisory Board; this Board's makeup consists of law enforcement professionals, judges, social service professionals, attorneys, school personnel, and community members. Policy, program, and budget management are accomplished through an Executive Board consisting of County Commissioners, law enforcement professionals, and community members.

Funding comes from Community Corrections Act subsidies, grants, local contributions from the participating counties, charges for services, and miscellaneous revenues.

Rock County acts as fiscal agent for Rock Nobles Community Corrections.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is (\$205,845), of which \$19,166 is the investment in capital assets.
- The Community Corrections' net position decreased by \$3,756 for the year ended December 31, 2015, after the restatement for Governmental Accounting Standards Board (GASB) Statements 68, 71, and 82. Additional information about the restatement can be found in Note 1.E.

- Overall fund level revenues totaled \$759,707 and were \$9,353 more than expenditures.
- For the year ended December 31, 2015, the unrestricted fund balance of the General Fund was \$239,102, or 31.9 percent of the total General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of two statements that combine government-wide financial statements and fund financial statements, and notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information. This report also contains other required supplementary information such as a budgetary comparison schedule for the General Fund, a schedule of funding progress for other postemployment benefits, and schedules of proportionate share of net pension liability and of contributions for the pension plan.

The first column of each of the first two statements presents governmental fund data. These columns focus on how money flows in and out and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. These columns provide a detailed short-term view of the Community Corrections' operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs. We reconcile the relationship (or differences) between governmental funds and governmental activities (reported in the third column) in the center column of each statement.

The third column in each statement presents the governmental activities' Statement of Net Position and the Statement of Activities, which provide information about the activities of Rock Nobles Community Corrections as a whole and present a longer-term view of its finances. These columns include all assets and liabilities using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Over time, increases or decreases in net position are one indicator of whether the Community Corrections' financial health is improving or deteriorating.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund statements. The notes to the financial statements can be found on pages 14 through 35 of this report.

Other information is provided as supplementary information regarding Rock Nobles Community Corrections' intergovernmental revenue.

GOVERNMENTAL FUND

Compared to 2014, revenues for Rock Nobles Community Corrections' General Fund increased by \$31,025, and total expenditures increased by \$16,292, primarily due to an increase in intergovernmental revenues and an increase in personal services expenditures, respectively.

The General Fund's nonspendable fund balance increased \$10,003 (176.8 percent) due to an increase in prepaid items at December 31, 2015, and the unassigned fund balance decreased \$650 (0.3 percent).

As shown in the Statement of Revenues, Expenditures, and Changes in Fund Balance, the amount that was received through intergovernmental revenues was 92.9 percent of the total revenue received, or \$705,643.

Rock Nobles Community Corrections adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with the budget.

FINANCIAL ANALYSIS OF THE COMMUNITY CORRECTIONS AS A WHOLE

Net Position

Over time, net position serves as a useful indicator of the government's financial position. Rock Nobles Community Corrections' liabilities exceeded assets by \$205,845 at December 31, 2015. Of the Community Corrections' net position, \$19,166 reflects its investment in capital assets. It should be noted that these assets are not available for future spending.

	Governmental Activities	
	2015	2014
Assets		
Current and other assets	\$ 270,926	\$ 280,492
Capital assets	19,166	22,217
Total Assets	<u>\$ 290,092</u>	<u>\$ 302,709</u>
Deferred Outflows of Resources		
Deferred pension outflows	<u>\$ 63,817</u>	<u>\$ -</u>
Liabilities		
Current liabilities	\$ 22,644	\$ 35,082
Long-term liabilities	496,239	46,994
Total Liabilities	<u>\$ 518,883</u>	<u>\$ 82,076</u>
Deferred Inflows of Resources		
Deferred pension inflows	<u>\$ 40,871</u>	<u>\$ -</u>

	Governmental Activities	
	2015	2014
Net Position		
Investment in capital assets	\$ 19,166	\$ 22,217
Unrestricted	(225,011)	198,416
Total Net Position, as reported	<u>\$ (205,845)</u>	\$ 220,633
Change in accounting principle*		<u>(422,722)</u>
Total Net Position, as restated		<u>\$ (202,089)</u>

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

The Community Corrections' net position was (\$205,845) at December 31, 2015.

Changes in Net Position

The Community Corrections' total revenues were \$759,707 for the year ended December 31, 2015. Intergovernmental revenues accounted for 92.9 percent of total revenues for the year.

Changes in Net Position

	Governmental Activities	
	2015	2014
Revenues		
Intergovernmental	\$ 705,643	\$ 676,331
Charges for services	49,922	47,833
Investment earnings	360	342
Miscellaneous	3,782	4,176
Total Revenues	<u>\$ 759,707</u>	<u>\$ 728,682</u>
Expenses		
Personal services	\$ 692,066	\$ 668,016
Other services and charges	38,548	44,010
Supplies	7,380	9,107
Professional and technical services	22,418	21,282
Depreciation	3,051	3,051
Total Expenses	<u>\$ 763,463</u>	<u>\$ 745,466</u>
Change in Net Position	\$ (3,756)	\$ (16,784)
Net Position - January 1, as restated	<u>(202,089)*</u>	<u>237,417</u>
Net Position - December 31, as reported	<u>\$ (205,845)</u>	<u>\$ 220,633</u>

*Amount includes a change in accounting principles. See Note 1.E.

General Fund Budgetary Highlights

Actual revenues were \$2,499 more than expected, primarily due to more than expected revenues from interest and miscellaneous revenues.

Actual expenditures were \$6,854 less than budgeted, primarily due to less than anticipated payroll expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2015, the Community Corrections had invested over \$78,000 in vehicles, office furniture, and equipment. Total depreciation for the year was \$3,051.

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Office furniture and equipment	\$ 42,992	\$ -	\$ -	\$ 42,992
Vehicles	<u>35,109</u>	<u>-</u>	<u>-</u>	<u>35,109</u>
Total capital assets depreciated	<u>\$ 78,101</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,101</u>
Less: accumulated depreciation for				
Office furniture and equipment	\$ 31,059	\$ 994	\$ -	\$ 32,053
Vehicles	<u>24,825</u>	<u>2,057</u>	<u>-</u>	<u>26,882</u>
Total accumulated depreciation	<u>\$ 55,884</u>	<u>\$ 3,051</u>	<u>\$ -</u>	<u>\$ 58,935</u>
Capital Assets, Net	<u><u>\$ 22,217</u></u>	<u><u>\$ (3,051)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 19,166</u></u>

Additional information about the Community Corrections' capital assets can be found in Note 2.A.3. to the financial statements.

Debt Administration

At year-end, the Community Corrections had no outstanding bonded debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Community Corrections is dependent on the State of Minnesota for a significant portion of its revenue. Should there be any reductions to grants or subsidies, 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 Nobles Community Corrections' finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Rock Nobles Community Corrections, Jon P. Ramlo, P. O. Box 547, Worthington, Minnesota 56187.

BASIC FINANCIAL STATEMENTS

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**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

EXHIBIT 1

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2015**

	General Fund	Adjustments	Governmental Activities
<u>Assets and Deferred Outflows of Resources</u>			
Current assets			
Cash and pooled investments	\$ 252,073	\$ -	\$ 252,073
Petty cash and change funds	200	-	200
Accounts receivable	115	-	115
Due from other governments	2,877	-	2,877
Prepaid items	15,661	-	15,661
Noncurrent assets			
Capital assets			
Depreciable - net	-	19,166	19,166
Total Assets	\$ 270,926	\$ 19,166	\$ 290,092
Deferred Outflows of Resources			
Deferred pension outflows	-	63,817	63,817
Total Assets and Deferred Outflows of Resources	\$ 270,926	\$ 82,983	\$ 353,909
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u>			
Current liabilities			
Accounts payable	\$ 5,313	\$ -	\$ 5,313
Salaries payable	10,850	-	10,850
Compensated absences payable - current	-	6,481	6,481
Long-term liabilities			
Compensated absences payable	-	29,923	29,923
Other postemployment benefits	-	5,072	5,072
Net pension liability	-	461,244	461,244
Total Liabilities	\$ 16,163	\$ 502,720	\$ 518,883
Deferred Inflows of Resources			
Deferred pension inflows	-	40,871	40,871

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

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

*EXHIBIT 1
(Continued)*

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2015**

	General Fund	Adjustments	Governmental Activities
<u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u> (Continued)			
Fund Balance			
Nonspendable for prepaid items	\$ 15,661	\$ (15,661)	
Unassigned	239,102	(239,102)	
Total Fund Balance	\$ 254,763	\$ (254,763)	
Net Position			
Investment in capital assets		\$ 19,166	\$ 19,166
Unrestricted		(225,011)	(225,011)
Total Net Position		\$ (205,845)	\$ (205,845)
Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position	\$ 270,926	\$ 82,983	\$ 353,909
Reconciliation of the General Fund Balance to Net Position			
Fund Balance - General Fund			\$ 254,763
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the General Fund.			19,166
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in the General Fund.			63,817
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the General Fund.			(40,871)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the General Fund.			
Compensated absences payable		\$ (36,404)	
Other postemployment benefits		(5,072)	
Net pension liability		(461,244)	(502,720)
Net Position - Governmental Activities			\$ (205,845)

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

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

EXHIBIT 2

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES
WITH ADJUSTMENTS TO RECONCILE BETWEEN MODIFIED AND FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 705,643	\$ -	\$ 705,643
Charges for services	49,922	-	49,922
Investment earnings	360	-	360
Miscellaneous	3,782	-	3,782
Total Revenues	\$ 759,707	\$ -	\$ 759,707
Expenditures/Expenses			
Current			
Public safety			
Personal services	\$ 682,008	\$ 10,058	\$ 692,066
Other services and charges	38,548	-	38,548
Supplies	7,380	-	7,380
Professional and technical services	22,418	-	22,418
Depreciation	-	3,051	3,051
Total Expenditures/Expenses	\$ 750,354	\$ 13,109	\$ 763,463
Net Change in Fund Balance/Net Position	\$ 9,353	\$ (13,109)	\$ (3,756)
Fund Balance/Net Position - January 1, as restated (Note 1.E.)	245,410	(447,499)	(202,089)
Fund Balance/Net Position - December 31	\$ 254,763	\$ (460,608)	\$ (205,845)

**Reconciliation of the General Fund Statement of Revenues, Expenditures,
and Changes in Fund Balance to the Statement of Activities**

Net Change in Fund Balance \$ 9,353

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.

Current year depreciation expense (3,051)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences payable	10,143
Change in other postemployment benefits	(4,625)
Change in net pension liability, as restated	(19,679)
Change in deferred outflows of resources, as restated	44,974
Change in deferred inflows of resources	(40,871)

Change in Net Position of Governmental Activities **\$ (3,756)**

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

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**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

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

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

The Community Corrections was created pursuant to the provisions of the Community Corrections Act, January 1, 1979. The Community Corrections provides probation and parole services to the far southwestern Minnesota counties of Nobles and Rock; it is responsible for juvenile and adult court clients. The Community Corrections is staffed with corrections professionals.

Program planning is the responsibility of the Advisory Board. Policy, program, and budget management are accomplished through the Executive Board consisting of County Commissioners, Advisory Board members, and judges. Funding comes from Community Corrections Act subsidies, local contributions from the participating counties, charges for services, and miscellaneous revenues.

Rock County acts as fiscal agent for the Community Corrections and reports Rock Nobles Community Corrections as an agency fund in its annual financial statements. The Community Corrections is reported as a component unit of Nobles County because Nobles County can significantly influence the operations of the Community Corrections. Rock Nobles Community Corrections does not have any component units.

B. Basic Financial Statements

1. Government-Wide Statements

Basic financial statements include information on the Community Corrections' activities as a whole and information on the individual fund (the General Fund) of the Community Corrections. These separate presentations are reported in different

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

columns on Exhibits 1 and 2. Each of the statements starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the “governmental activities” of the Community Corrections as a whole.

The governmental activities columns are reported on the full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Community Corrections’ net position is reported in two parts: investment in capital assets and unrestricted net position. The Statement of Activities demonstrates the degree to which the expenses of the Community Corrections are offset by revenues.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund are presented on the modified accrual basis and report current financial resources.

C. Measurement Focus and Basis of Accounting

The governmental activities columns 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. Grants and similar items are recognized as revenues as soon as eligibility requirements imposed by the provider have been met.

Governmental fund columns (General Fund) 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. The Community Corrections considers all revenues as available if collected within 60 days after the end of the current period. Charges for services and interest are considered to be 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 NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, 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 Community Corrections' 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. Deposits and Pooled Investments

The cash and pooled investments balances represent funds in the checking account of Rock Nobles Community Corrections held by the Rock County Auditor-Treasurer at December 31, 2015. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

2. Receivables and Payables

The financial statements for the Community Corrections contain no allowance for uncollectible accounts. Uncollectible receivables are recognized as bad debts at the time information becomes available that indicates the particular receivable is uncollectible. These amounts are not considered to be material in relation to the financial position or operations of the fund.

3. Prepaid Items

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

4. Capital Assets

Capital assets, which include office furniture and equipment and vehicles, are reported in the governmental activities column on the Statement of Net Position. Capital assets are defined by the Community Corrections as assets with an initial, individual cost of more than \$750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets (Continued)

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.

Office furniture and equipment and vehicles are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Office furniture and equipment	3 - 20
Vehicles	3 - 20

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the General Fund only if they have matured, for example, as a result of employee resignations and retirements. The 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. The noncurrent portion consists of the remaining portion.

6. Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column on the Statement of Net Position.

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. 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.

8. 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. Currently, the Community Corrections has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date and also the differences 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. Currently, the Community Corrections has one item, deferred pension inflows, that qualifies for reporting in this category. These inflows arise only under the full accrual basis of accounting and consist of the 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.

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Classification of Net Position

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

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

10. Classification of Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which Rock Nobles Community Corrections is bound to observe constraints imposed upon the use of the resources in the General Fund. These 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 for 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.

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Classification of Fund Balance (Continued)

- Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Community Corrections Executive Board. Those committed amounts cannot be used for any other purpose unless the Executive 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 Community Corrections intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Community Corrections Executive Board.
- Unassigned - the residual classification for the General Fund; it includes all spendable amounts not contained in the other fund balance classifications.

Rock Nobles Community Corrections 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.

At December 31, 2015, the General Fund had \$15,661 in nonspendable fund balance. The remaining fund balance is classified as unassigned.

11. Use of Estimates

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

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Change in Accounting Principles

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

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

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

GASB Statements 68 and 71 require the Community Corrections to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the Community Corrections' net pension liability of (\$441,565) and related deferred outflows of resources of \$18,843.

	Governmental Activities
Net Position, January 1, 2015, as previously reported	\$ 220,633
Change in accounting principles	(422,722)
Net Position, January 1, 2015, as restated	\$ (202,089)

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

2. Detailed Notes

A. Assets and Deferred Outflows of Resources

1. Deposits and Pooled Investments

Reconciliation of the Community Corrections' total cash and pooled investments to the basic financial statements follows:

Governmental Activities	
Cash and pooled investments	\$ 252,073
Petty cash and change funds	200
	<hr/>
Total Cash and Investments	\$ 252,273
	<hr/> <hr/>
Petty cash and change funds	\$ 200
Checking	252,073
	<hr/>
Total Deposits and Investments	\$ 252,273
	<hr/> <hr/>

a. Deposits

Cash transactions are administered by the Rock County Auditor-Treasurer, who is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. Rock 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.

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

2. Detailed Notes

A. Assets and Deferred Outflows of Resources

1. Deposits and Pooled Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Community Corrections' 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.

b. Investments

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

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

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

2. Detailed Notes

A. Assets and Deferred Outflows of Resources

1. Deposits and Pooled Investments

b. Investments (Continued)

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

2. Receivables

The Community Corrections did not have any receivables scheduled to be collected beyond one year as of December 31, 2015. Receivables as of December 31, 2015, for the Community Corrections' governmental activities, net of the applicable allowances for uncollectible accounts, are as follows:

	Receivables
Governmental Activities	
Accounts	\$ 115
Due from other governments	2,877
Total Governmental Activities	\$ 2,992

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Office furniture and equipment	\$ 42,992	\$ -	\$ -	\$ 42,992
Vehicles	35,109	-	-	35,109
Total capital assets depreciated	\$ 78,101	\$ -	\$ -	\$ 78,101
Less: accumulated depreciation for				
Office furniture and equipment	\$ 31,059	\$ 994	\$ -	\$ 32,053
Vehicles	24,825	2,057	-	26,882
Total accumulated depreciation	\$ 55,884	\$ 3,051	\$ -	\$ 58,935
Capital Assets, Net	\$ 22,217	\$ (3,051)	\$ -	\$ 19,166

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

2. Detailed Notes

A. Assets and Deferred Outflows of Resources

3. Capital Assets (Continued)

Depreciation expense of \$3,051 was charged to the Community Corrections' public safety function for the year ended December 31, 2015.

B. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2015, were as follows:

	Payables
Governmental Activities	
Accounts	\$ 5,313
Salaries	10,850
Total Governmental Activities	\$ 16,163

2. Compensated Absences

Changes in compensated absences for the year ended December 31, 2015, were:

Payable at January 1	\$ 46,547
Additions	37,418
Deductions	(47,561)
Payable at December 31	\$ 36,404

Of the total compensated absences of \$36,404, the amount due within one year is \$6,481.

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

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

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

2. Benefits Provided

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

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

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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

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

3. Contributions

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

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

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.50

The Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014.

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

3. Contributions (Continued)

The Community Corrections' contributions for the General Employees Retirement Fund for the year ended December 31, 2015, were \$38,790. The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

At December 31, 2015, the Community Corrections reported a liability of \$461,244 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Community Corrections' proportion of the net pension liability was based on the Community Corrections' contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Community Corrections' proportion was 0.0089 percent. It was 0.0094 percent measured as of June 30, 2014. The Community Corrections recognized pension expense of \$55,676 for its proportionate share of the General Employees Retirement Fund's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ -	\$ 23,255
Difference between projected and actual investment earnings	43,664	-
Changes in proportion	-	17,616
Contributions paid to PERA subsequent to the measurement date	20,153	-
Total	\$ 63,817	\$ 40,871

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

A total of \$20,153 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ (2,708)
2017	(2,708)
2018	(2,708)
2019	10,917

5. Actuarial Assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. The cost of living benefit increases for retirees was assumed to be 1.0 percent effective every January 1 through 2035, and 2.5 percent thereafter.

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

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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

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

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

6. Discount Rate

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

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

7. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 725,240	\$ 461,244	\$ 243,224

8. Pension Plan Fiduciary Net Position

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

B. Other Postemployment Benefits (OPEB)

Plan Description

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

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

B. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

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

The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as Community Corrections' employees. This results in the retirees receiving an implicit rate subsidy. For 2015, there were approximately nine active participants and one retiree.

Annual OPEB Cost and Net OPEB Obligation

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

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

ARC	\$	5,316
Interest on net OPEB obligation		18
Adjustment to ARC		(25)
		(25)
Annual OPEB cost	\$	5,309
Contributions made during the year		(684)
		(684)
Increase in net OPEB obligation	\$	4,625
Net OPEB Obligation - Beginning of Year		447
		447
Net OPEB Obligation - End of Year	\$	5,072

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

B. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

Rock Nobles Community Corrections' annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for the years ended December 31, 2013, 2014, and 2015, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Distributed</u>	<u>Net OPEB Obligation/ (Asset)</u>
December 31, 2013	\$ 3,156	\$ 5,067	160.5%	\$ (1,420)
December 31, 2014	3,186	1,319	41.4	447
December 31, 2015	5,309	684	12.9	5,072

Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the Community Corrections had no assets to fund the plan. The actuarial accrued liability for benefits was \$35,362, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$35,362. The covered payroll (annual payroll of active employees covered by the plan) was \$508,251, and the ratio of the UAAL to the covered payroll was 7.0 percent.

Actuarial Methods and Assumptions

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

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

B. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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

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

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

4. Risk Management

The Community Corrections 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. To manage these risks, the Community Corrections has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The Community Corrections is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The Community Corrections participates in the Southwest/West Central Service Cooperative to provide group employee health benefits. For all other risk, the Community Corrections 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.

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

4. Risk Management (Continued)

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

The Property and Casualty Division of MCIT is self-sustaining, and the Community Corrections 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 Community Corrections in a method and amount to be determined by MCIT.

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

5. Summary of Significant Contingencies and Other Items

Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the State of Minnesota. 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 Community Corrections expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

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**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

EXHIBIT A-1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 707,208	\$ 707,208	\$ 705,643	\$ (1,565)
Charges for services	50,000	50,000	49,922	(78)
Interest on investments	-	-	360	360
Miscellaneous	-	-	3,782	3,782
Total Revenues	<u>\$ 757,208</u>	<u>\$ 757,208</u>	<u>\$ 759,707</u>	<u>\$ 2,499</u>
Expenditures				
Current				
Public safety				
Personal services	\$ 698,908	\$ 698,908	\$ 682,008	\$ 16,900
Other services and charges	36,800	36,800	38,548	(1,748)
Supplies	7,000	7,000	7,380	(380)
Professional and technical services	14,500	14,500	22,418	(7,918)
Total Expenditures	<u>\$ 757,208</u>	<u>\$ 757,208</u>	<u>\$ 750,354</u>	<u>\$ 6,854</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,353</u>	<u>\$ 9,353</u>
Fund Balance - January 1	<u>245,410</u>	<u>245,410</u>	<u>245,410</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 245,410</u>	<u>\$ 245,410</u>	<u>\$ 254,763</u>	<u>\$ 9,353</u>

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

EXHIBIT A-2

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2008	\$ -	\$ 3,626	\$ 3,626	0.00%	\$ 608,732	0.6%
January 1, 2012	-	35,235	35,235	0.00	480,152	7.3
January 1, 2015	-	35,362	35,362	0.00	508,251	7.0

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

EXHIBIT A-3

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

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0089%	\$ 461,244	\$ 525,862	87.71%	78.19%

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

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

EXHIBIT A-4

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

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 40,103	\$ 40,103	\$ -	\$ 534,713	7.50%

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

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**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

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

1. General Budget Policies

The appropriated budget is prepared by function and department. The legal level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is the fund level.

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

2. Budget Basis of Accounting

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

3. Budget Amendments

There were no budget amendments in 2015.

4. Other Postemployment Benefits Funded Status

Since the Community Corrections 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.B. in the notes to the financial statements for additional information regarding the Community Corrections' other postemployment benefits.

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

5. Other Postemployment Benefits - Significant Plan Provisions and Actuarial Assumption Changes

2012

Plan Provisions

- None

Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality table was updated from the 1994 Group Annuity Mortality to the RP-2000 Combined Healthy Mortality table projected to 2012 with Scale BB.
- Retirement, termination, and withdrawal rates were updated to reflect experience studies by the Public Employees Retirement Association of Minnesota.
- The method determining annual claims cost is the Alternative Measurement Method as defined in GASB Statement 45.

2015

Plan Provisions

- The service requirement for access to group insurance was changed from three to five years due to changes in the public pension provisions. This did not impact any current employees.

Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases. The actual 2015 medical cost increase of 14.9 percent has been taken into account in this valuation.
- The mortality table was updated from the projection of RP 2000 rates to 2012 to the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.

SUPPLEMENTARY INFORMATION

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**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

EXHIBIT B-1

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

Shared Revenue	
Payments from participating counties	\$ 267,640
Grants	
State	
Minnesota Department of Corrections	<u>438,003</u>
Total Intergovernmental Revenue	<u><u>\$ 705,643</u></u>

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REBECCA OTTO
STATE AUDITOR

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

Independent Auditor's Report

Executive Board
Rock Nobles Community Corrections
Worthington, 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 and the General Fund of Rock Nobles Community Corrections, a component unit of Nobles County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Community Corrections' basic financial statements, and have issued our report thereon dated July 21, 2016.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Nobles Community Corrections' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Community Corrections' financial statements: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the Community Corrections has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Rock Nobles Community Corrections failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*. 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 Community Corrections' noncompliance with the above referenced provisions.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 21, 2016