

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, 2014

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

Year Ended December 31, 2014



**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
2014

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 2014

²Vice Chair 2014

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REBECCA OTTO
STATE AUDITOR

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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, 2014, 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 of 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, 2014, 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.

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 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 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 September 15, 2015, 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

September 15, 2015

/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, 2014
(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, 2014. 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 \$220,633, of which \$22,217 is the investment in capital assets.
- The Community Corrections' net position decreased by \$16,784 for the year ended December 31, 2014, due primarily to less than anticipated revenues from charges for services.

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 and a schedule of funding progress for other postemployment benefits.

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 13 through 30 of this report.

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

GOVERNMENTAL FUND

Compared to 2013, revenues for Rock Nobles Community Corrections' General Fund increased by \$32,665, and total expenditures increased by \$30,755, primarily due to an increase in intergovernmental revenues, and an increase in payroll and professional services expenditures, respectively.

The General Fund's nonspendable fund balance increased \$253 (4.7 percent) due to an increase in prepaid items at December 31, 2014, and the unassigned fund balance decreased \$5,633 (2.3 percent), primarily due to less charges for services revenue than anticipated.

As shown in the Statement of Revenues, Expenditures, and Changes in Fund Balance, the amount that was received through intergovernmental revenues was 92.8 percent of the total revenue received, or \$676,331.

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' assets exceeded liabilities by \$220,633 on December 31, 2014. Ten percent of the Community Corrections' net position reflects its investment in capital assets. It should be noted that these assets are not available for future spending.

	Governmental Activities	
	2014	2013
Net Position		
Assets		
Current and other assets	\$ 280,492	\$ 281,569
Capital assets	22,217	25,268
Total Assets	<u>\$ 302,709</u>	<u>\$ 306,837</u>
Liabilities		
Current liabilities	\$ 35,082	\$ 34,482
Long-term liabilities	46,994	34,938
Total Liabilities	<u>\$ 82,076</u>	<u>\$ 69,420</u>
Net Position		
Investment in capital assets	\$ 22,217	\$ 25,268
Unrestricted	198,416	212,149
Total Net Position	<u>\$ 220,633</u>	<u>\$ 237,417</u>

Unrestricted net position--the part of net position that may be used to meet the Community Corrections' ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--was 89.9 percent of net position.

Changes in Net Position

The Community Corrections' total revenues were \$728,682 for the year ended December 31, 2014. Intergovernmental revenues accounted for 92.8 percent of total revenues for the year.

Changes in Net Position

	Governmental Activities	
	2014	2013
Revenues		
Intergovernmental	\$ 676,331	\$ 624,675
Charges for services	47,833	64,762
Investment earnings	342	354
Miscellaneous	4,176	6,226
Total Revenues	\$ 728,682	\$ 696,017
Expenses		
Personal services	\$ 668,016	\$ 627,968
Other services and charges	44,010	40,798
Supplies	9,107	7,673
Professional and technical services	21,282	19,684
Depreciation	3,051	3,566
Total Expenses	\$ 745,466	\$ 699,689
Change in Net Position	\$ (16,784)	\$ (3,672)
Net Position - January 1	237,417	241,089
Net Position - December 31	\$ 220,633	\$ 237,417

General Fund Budgetary Highlights

Actual revenues were \$21,149 less than expected, primarily due to less than expected revenues from charges for services.

Actual expenditures were \$15,769 less than budgeted, primarily due to less than anticipated payroll expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2014, the Community Corrections had invested over \$78,000 in vehicles, office furniture, and equipment. Total depreciation for the year was \$3,051.

	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	\$ 30,065	\$ 994	\$ -	\$ 31,059
Vehicles	22,768	2,057	-	24,825
Total accumulated depreciation	\$ 52,833	\$ 3,051	\$ -	\$ 55,884
Capital Assets, Net	\$ 25,268	\$ (3,051)	\$ -	\$ 22,217

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.

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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, 2014**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 238,064	\$ -	\$ 238,064
Petty cash and change funds	200	-	200
Accounts receivable	4,468	-	4,468
Due from other governments	32,102	-	32,102
Prepaid items	5,658	-	5,658
Noncurrent assets			
Capital assets			
Depreciable - net	-	22,217	22,217
Total Assets	\$ 280,492	\$ 22,217	\$ 302,709
<u>Liabilities and Fund Balance/Net Position</u>			
Liabilities			
Current liabilities			
Accounts payable	\$ 4,771	\$ -	\$ 4,771
Salaries payable	30,311	-	30,311
Long-term liabilities			
Due within one year	-	5,937	5,937
Due in more than one year	-	40,610	40,610
Other postemployment benefits (OPEB) payable	-	447	447
Total Liabilities	\$ 35,082	\$ 46,994	\$ 82,076
Fund Balance			
Nonspendable for prepaid items	\$ 5,658	\$ (5,658)	
Unassigned	239,752	(239,752)	
Total Fund Balance	\$ 245,410	\$ (245,410)	
Net Position			
Investment in capital assets		\$ 22,217	\$ 22,217
Unrestricted		198,416	198,416
Total Net Position		\$ 220,633	\$ 220,633
Total Liabilities and Fund Balance/Net Position	\$ 280,492	\$ 22,217	\$ 302,709

**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, 2014**

Reconciliation of the General Fund Balance to Net Position

Fund Balance - General Fund	\$	245,410
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the General Fund.		22,217
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the General Fund.		
Compensated absences	\$ (46,547)	
Net other postemployment benefits (OPEB) payable	<u>(447)</u>	<u>(46,994)</u>
Net Position - Governmental Activities	\$	<u>220,633</u>

**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, 2014**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 676,331	\$ -	\$ 676,331
Charges for services	47,833	-	47,833
Investment earnings	342	-	342
Miscellaneous	4,176	-	4,176
Total Revenues	\$ 728,682	\$ -	\$ 728,682
Expenditures/Expenses			
Current			
Public safety			
Personal services	\$ 659,663	\$ 8,353	\$ 668,016
Other services and charges	44,010	-	44,010
Supplies	9,107	-	9,107
Professional and technical services	21,282	-	21,282
Depreciation	-	3,051	3,051
Total Expenditures/Expenses	\$ 734,062	\$ 11,404	\$ 745,466
Net Change in Fund Balance/Net Position	\$ (5,380)	\$ (11,404)	\$ (16,784)
Fund Balance/Net Position - January 1	250,790	(13,373)	237,417
Fund Balance/Net Position - December 31	\$ 245,410	\$ (24,777)	\$ 220,633
 Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities			
Net Change in Fund Balance			\$ (5,380)
 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.			
(Increase) decrease in net OPEB liability			(1,867)
(Increase) decrease in compensated absences liability			(6,486)
Change in Net Position of Governmental Activities			\$ (16,784)

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**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014**

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, 2014. 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 are 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, 2014. 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. 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.

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report 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. No deferred outflows of resources affect the governmental fund or governmental activities financial statements in the current year.

In addition to liabilities, the statement of financial position will sometimes report 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. No deferred inflows of resources affect the governmental fund or governmental activities financial statements in the current year.

**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 Fund Balances

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.
- 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
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Classification of Fund Balances (Continued)

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, 2014, the General Fund had \$5,658 in nonspendable fund balance. The remaining fund balance is classified as unassigned.

10. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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.

E. Future Change in Accounting Standards

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*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the Community Corrections' calendar year 2015. The Community Corrections has not yet determined the financial statement impact of adopting this new standard.

**ROCK-NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

2. Detailed Notes

A. Assets

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	\$ 238,064
Petty cash and change funds	200
	<hr/>
Total Cash and Investments	\$ 238,264
	<hr/>
Petty cash and change funds	\$ 200
Checking	238,064
	<hr/>
Total Deposits and Investments	\$ 238,264
	<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

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

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, 2014. Receivables as of December 31, 2014, for the Community Corrections' governmental activities, net of the applicable allowances for uncollectible accounts, are as follows:

	<u>Receivables</u>
Governmental Activities	
Accounts	\$ 4,468
Due from other governments	32,102
Total Governmental Activities	\$ 36,570

3. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

	<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	35,109	-	-	35,109
Total capital assets depreciated	\$ 78,101	\$ -	\$ -	\$ 78,101
Less: accumulated depreciation for				
Office furniture and equipment	\$ 30,065	\$ 994	\$ -	\$ 31,059
Vehicles	22,768	2,057	-	24,825
Total accumulated depreciation	\$ 52,833	\$ 3,051	\$ -	\$ 55,884
Capital Assets, Net	\$ 25,268	\$ (3,051)	\$ -	\$ 22,217

**ROCK-NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

2. Detailed Notes

A. Assets

3. Capital Assets (Continued)

Depreciation expense of \$3,051 was charged to the Community Corrections' public safety function for the year ended December 31, 2014.

B. Liabilities

1. Payables

Payables at December 31, 2014, were as follows:

	Payables
Governmental Activities	
Accounts	\$ 4,771
Salaries	30,311
Total Governmental Activities	\$ 35,082

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 40,061	\$ 59,014	\$ 52,528	\$ 46,547	\$ 5,937
Net OPEB obligation/(asset)	(1,420)	3,186	1,319	447	-
Governmental Activities Long-Term Liabilities	\$ 38,641	\$ 62,200	\$ 53,847	\$ 46,994	\$ 5,937

**ROCK-NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

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.

General Employees Retirement Fund members of the Community Corrections belong to the Coordinated Plan and are covered by Social Security. Benefits vest after five years of credited service.

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

Two methods are used to compute benefits for General Employees Retirement Fund Coordinated 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 is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for each year of service.

For General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

**ROCK-NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The Community Corrections makes annual contributions to the pension plan equal to the amount required by state statutes. General Employees Retirement Fund Coordinated Plan members were required to contribute 6.25 percent of their annual covered salary in 2014.

The Community Corrections was required to contribute 7.25 percent of annual covered payroll for Coordinated Plan members in 2014.

The Community Corrections' contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund were:

<u>2014</u>	<u>2013</u>	<u>2012</u>
\$ 37,200	\$ 35,310	\$ 34,973

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers).

**ROCK-NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by the Community Corrections during the year ended December 31, 2014, were:

	Employee	Employer
Contribution amount	\$ 15	\$ 15
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. 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

C. 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 2014, there were approximately eleven 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	\$	3,170
Interest on net OPEB obligation		(57)
Adjustment to ARC		73
		73
Annual OPEB cost (expense)	\$	3,186
Contributions made		(1,319)
		(1,319)
Increase in net OPEB obligation	\$	1,867
Net OPEB Obligation/(Asset) - Beginning of Year		(1,420)
		(1,420)
Net OPEB Obligation/(Asset) - End of Year	\$	447
		447

**ROCK-NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. 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, 2012, 2013, and 2014, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation/ (Asset)</u>
December 31, 2012	\$ 3,139	\$ 4,346	138.5%	\$ 491
December 31, 2013	3,156	5,067	160.5	(1,420)
December 31, 2014	3,186	1,319	41.4	447

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the Community Corrections had no assets to fund the plan. The actuarial accrued liability for benefits was \$35,235, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$35,235. The covered payroll (annual payroll of active employees covered by the plan) was \$480,152, and the ratio of the UAAL to the covered payroll was 7.3 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

C. 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, 2012, 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 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 6 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, 2014, was 23 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 \$480,000 per claim in 2014 and \$490,000 in 2015. 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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 674,831	\$ 674,831	\$ 676,331	\$ 1,500
Charges for services	75,000	75,000	47,833	(27,167)
Interest on investments	-	-	342	342
Miscellaneous	-	-	4,176	4,176
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	<u>\$ 749,831</u>	<u>\$ 749,831</u>	<u>\$ 728,682</u>	<u>\$ (21,149)</u>
Expenditures				
Current				
Public safety				
Personal services	\$ 691,931	\$ 691,931	\$ 659,663	\$ 32,268
Other services and charges	38,900	38,900	44,010	(5,110)
Supplies	8,000	8,000	9,107	(1,107)
Professional and technical services	11,000	11,000	21,282	(10,282)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	<u>\$ 749,831</u>	<u>\$ 749,831</u>	<u>\$ 734,062</u>	<u>\$ 15,769</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,380)</u>	<u>\$ (5,380)</u>
Fund Balance - January 1	<u>250,790</u>	<u>250,790</u>	<u>250,790</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 250,790</u></u>	<u><u>\$ 250,790</u></u>	<u><u>\$ 245,410</u></u>	<u><u>\$ (5,380)</u></u>

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

EXHIBIT A-2

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	\$ -	\$ 3,626	\$ 3,626	0.0%	\$ 608,732	0.6%
January 1, 2012	-	35,235	35,235	0.0	480,152	7.3

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

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 2014.

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. Currently, two actuarial valuations are available. As the information becomes available, future reports will provide additional trend analysis to meet the three valuation funding status requirement.

See Note 3.C. 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.

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, 2014**

Shared Revenue	
Payments from participating counties	\$ 236,847
Grants	
State	
Minnesota Department of Corrections	<u>439,484</u>
Total Intergovernmental Revenue	<u><u>\$ 676,331</u></u>

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**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

None.

II. ITEM FOR CONSIDERATION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the Community Corrections' government-wide statement of financial position. The Community Corrections' financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years--deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in the Rock Nobles Community Corrections' financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue

to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.



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, 2014, and the related notes to the financial statements, which collectively comprise the Community Corrections' basic financial statements, and have issued our report thereon dated September 15, 2015.

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 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, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness because the Community Corrections does not have debt.

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 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.

Other Matters

Included in the Schedule of Findings and Recommendations is an item for consideration. We believe this information to be of benefit to the Community Corrections, and it is reported for that purpose.

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 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

September 15, 2015