

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, 2016

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 650 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, 2016



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

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**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
General Fund Balance Sheet and Governmental Activities - Statement of Net Position	1	10
General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and Governmental Activities - Statement of Activities	2	12
Notes to the Financial Statements		14
Required Supplementary Information		
Budgetary Comparison Schedule - General Fund	A-1	37
Schedule of Funding Progress - Other Postemployment Benefits	A-2	38
PERA General Employees Retirement Plan		
Schedule of Proportionate Share of Net Pension Liability	A-3	39
Schedule of Contributions	A-4	40
Notes to the Required Supplementary Information		41
Supplementary Information		
Schedule of Intergovernmental Revenue	B-1	44
Management and Compliance Section		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		45

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**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

ORGANIZATION
2016

Office	Name	Term Expires
Executive Board		
Nobles County Commissioner	Matthew Widboom	January 2019
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 2019
Appointees	David Benson	January 2018
	Mike Harmon ²	January 2018
Position		
Director	Jon Ramlo	Indefinite
Fiscal Officer	Kyle Oldre	Indefinite

¹Chair 2016

²Vice Chair 2016

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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, 2016, 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, 2016, 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 May 22, 2017, 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

May 22, 2017

/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, 2016
(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, 2016. 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 Community Corrections' basic financial statements that follow this section.

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.

Policy, program, and budget management are accomplished through the Executive Board consisting of County Commissioners, law enforcement professionals, and community members. Funding comes from Community Corrections Act subsidies, local contributions from the participating counties, charges for services, and miscellaneous revenues.

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 (\$209,300), of which \$28,904 is the investment in capital assets.
- The Community Corrections' net position decreased by \$3,455 for the year ended December 31, 2016.
- Overall fund level revenues totaled \$750,173 and were \$12,696 more than expenditures.
- For the year ended December 31, 2016, the unrestricted fund balance of the General Fund was \$251,352, or 34.1 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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 36 of this report.

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

GOVERNMENTAL FUND

Compared to 2015, revenues for Rock Nobles Community Corrections' General Fund decreased by \$9,534, and total expenditures decreased by \$12,877, primarily due to a decrease in charges for services, and a decrease in personal services expenditures, respectively.

The General Fund's nonspendable fund balance increased \$446 (2.8 percent) due to an increase in prepaid items at December 31, 2016, and the unassigned fund balance increased \$12,250 (5.1 percent).

As shown in the Statement of Revenues, Expenditures, and Changes in Fund Balance, the amount that was received through intergovernmental revenues was 94.3 percent of the total revenue received, or \$707,267.

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 and deferred inflows of resources exceeded assets and deferred outflows of resources by \$209,300 on December 31, 2016. Of the Community Corrections' net position, \$28,904 reflects its investment in capital assets. It should be noted that these assets are not available for future spending. Comparative data with 2015 is presented.

	Governmental Activities	
	2016	2015
Assets		
Current and other assets	\$ 299,475	\$ 270,926
Capital assets	28,904	19,166
Total Assets	\$ 328,379	\$ 290,092
Deferred Outflows of Resources		
Deferred pension outflows	\$ 273,796	\$ 63,817
Liabilities		
Current liabilities	\$ 23,218	\$ 22,644
Long-term liabilities	687,196	496,239
Total Liabilities	\$ 710,414	\$ 518,883
Deferred Inflows of Resources		
Deferred pension inflows	\$ 101,061	\$ 40,871
Net Position		
Investment in capital assets	\$ 28,904	\$ 19,166
Unrestricted	(238,204)	(225,011)
Total Net Position	\$ (209,300)	\$ (205,845)

The Community Corrections' net position was (\$209,300) at December 31, 2016.

Changes in Net Position

The Community Corrections' total revenues were \$765,114 for the year ended December 31, 2016. Intergovernmental revenues accounted for 94.4 percent of total revenues for the year. Net position decreased 1.7 percent, or \$3,455 from 2015. Comparative data is presented.

	Governmental Activities	
	2016	2015
Revenues		
Intergovernmental	\$ 722,208	\$ 705,643
Charges for services	37,601	49,922
Investment earnings	1,602	360
Miscellaneous	3,703	3,782
Total Revenues	\$ 765,114	\$ 759,707
Expenses		
Personal services	\$ 684,376	\$ 692,066
Other services and charges	37,077	38,548
Supplies	7,437	7,380
Professional and technical services	34,372	22,418
Depreciation	5,307	3,051
Total Expenses	\$ 768,569	\$ 763,463
Change in Net Position	\$ (3,455)	\$ (3,756)
Net Position - January 1	(205,845)	(202,089)
Net Position - December 31	\$ (209,300)	\$ (205,845)

General Fund Budgetary Highlights

Actual revenues were \$10,314 less than expected, primarily due to less intergovernmental revenues and charges for services than expected.

Actual expenditures were \$23,010 less than budgeted, primarily due to less payroll expenditures than anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016, the Community Corrections had invested over \$80,000 in vehicles, office furniture, and equipment. Total depreciation for the year was \$5,307.

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Office furniture and equipment	\$ 42,992	\$ -	\$ -	\$ 42,992
Vehicles	35,109	15,045	10,550	39,604
Total capital assets depreciated	\$ 78,101	\$ 15,045	\$ 10,550	\$ 82,596
Less: accumulated depreciation for				
Office furniture and equipment	\$ 32,053	\$ 994	\$ -	\$ 33,047
Vehicles	26,882	4,313	10,550	20,645
Total accumulated depreciation	\$ 58,935	\$ 5,307	\$ -	\$ 53,692
Capital Assets, Net	\$ 19,166	\$ 9,738	\$ -	\$ 28,904

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, 2016**

	General Fund	Adjustments	Governmental Activities
<u>Assets and Deferred Outflows of Resources</u>			
Current assets			
Cash	\$ 265,259	\$ -	\$ 265,259
Petty cash and change funds	200	-	200
Due from other governments	17,909	-	17,909
Prepaid items	16,107	-	16,107
Noncurrent assets			
Capital assets			
Depreciable - net	-	28,904	28,904
Total Assets	\$ 299,475	\$ 28,904	\$ 328,379
Deferred Outflows of Resources			
Deferred pension outflows	-	273,796	273,796
Total Assets and Deferred Outflows of Resources	\$ 299,475	\$ 302,700	\$ 602,175
<u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u>			
Current liabilities			
Accounts payable	\$ 2,289	\$ -	\$ 2,289
Due to other governments	99	-	99
Salaries payable	14,687	-	14,687
Compensated absences payable - current	-	6,143	6,143
Long-term liabilities			
Compensated absences payable	-	28,523	28,523
Net other postemployment benefits obligation	-	9,113	9,113
Net pension liability	-	649,560	649,560
Total Liabilities	\$ 17,075	\$ 693,339	\$ 710,414
Deferred Inflows of Resources			
Deferred pension inflows	\$ -	\$ 101,061	\$ 101,061
Unavailable revenue	14,941	(14,941)	-
Total Deferred Inflows of Resources	\$ 14,941	\$ 86,120	\$ 101,061

**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, 2016**

	General Fund	Adjustments	Governmental Activities
<u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u> (Continued)			
Fund Balance			
Nonspendable for prepaid items	\$ 16,107	\$ (16,107)	
Unassigned	251,352	(251,352)	
Total Fund Balance	\$ 267,459	\$ (267,459)	
Net Position			
Investment in capital assets		\$ 28,904	\$ 28,904
Unrestricted		(238,204)	(238,204)
Total Net Position		\$ (209,300)	\$ (209,300)
Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position	\$ 299,475	\$ 302,700	\$ 602,175
Reconciliation of the General Fund Balance to Net Position			
Fund Balance - General Fund			\$ 267,459
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the General Fund.			28,904
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in the General Fund.			273,796
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.			(101,061)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the General Fund.			14,941
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the General Fund.			
Compensated absences payable		\$ (34,666)	
Net other postemployment benefits obligation		(9,113)	
Net pension liability		(649,560)	(693,339)
Net Position - Governmental Activities			\$ (209,300)

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

Page 11

**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, 2016**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 707,267	\$ 14,941	\$ 722,208
Charges for services	37,601	-	37,601
Investment earnings	1,602	-	1,602
Miscellaneous	3,703	-	3,703
Total Revenues	\$ 750,173	\$ 14,941	\$ 765,114
Expenditures/Expenses			
Current			
Public safety			
Personal services	\$ 643,546	\$ 40,830	\$ 684,376
Other services and charges	52,122	(15,045)	37,077
Supplies	7,437	-	7,437
Professional and technical services	34,372	-	34,372
Depreciation	-	5,307	5,307
Total Expenditures/Expenses	\$ 737,477	\$ 31,092	\$ 768,569
Net Change in Fund Balance/Net Position	\$ 12,696	\$ (16,151)	\$ (3,455)
Fund Balance/Net Position - January 1	254,763	(460,608)	(205,845)
Fund Balance/Net Position - December 31	\$ 267,459	\$ (476,759)	\$ (209,300)

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

**EXHIBIT 2
(Continued)**

**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, 2016**

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

Net Change in Fund Balance	\$	12,696
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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.

Expenditures for general capital assets	\$	15,045	
Current year depreciation expense		<u>(5,307)</u>	9,738

In governmental funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the General Fund statement of revenues, expenditures, and changes in fund balance and the statement of activities is the increase or decrease in revenue deferred as unavailable. Rock Nobles Community Corrections had no unavailable revenue on January 1.

14,941

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		1,738	
Change in net other postemployment benefits obligation		(4,041)	
Change in net pension liability		(188,316)	
Change in deferred pension outflows		209,979	
Change in deferred pension inflows		<u>(60,190)</u>	

Change in Net Position of Governmental Activities	\$	<u>(3,455)</u>
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**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

1. Summary of Significant Accounting Policies

Rock Nobles Community Corrections' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America as of and for the year ended December 31, 2016. 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.

Policy, program, and budget management are accomplished through the Executive Board consisting of County Commissioners, law enforcement professionals, and community members. 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 resource 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. Cash

The cash balances represent funds in the checking account of Rock Nobles Community Corrections held by the Rock County Auditor-Treasurer at December 31, 2016. 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 acquisition value (entry price) 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. 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, changes in actuarial assumptions, 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. The Community Corrections has two types of deferred inflows. The governmental fund reports unavailable revenue from county contributions receivable for amounts that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental fund balance sheet. The unavailable amount is deferred and

**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

8. Deferred Outflows/Inflows of Resources (Continued)

recognized as an inflow of resources in the period that the amounts become available. The Community Corrections also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

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:

**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)

- 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 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, 2016, the General Fund had \$16,107 in nonspendable fund balance. The remaining fund balance is classified as unassigned.

**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)

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, deferred outflows of resources, liabilities, and deferred inflows of resources; and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Detailed Notes

A. Assets and Deferred Outflows of Resources

1. Cash

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

Governmental Activities	
Cash	\$ 265,259
Petty cash and change funds	<u>200</u>
Total Cash	<u>\$ 265,459</u>
Petty cash and change funds	\$ 200
Checking	<u>265,259</u>
Total Cash and Deposits	<u>\$ 265,459</u>

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

2. Detailed Notes

A. Assets and Deferred Outflows of Resources

1. Cash (Continued)

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.

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.

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

2. Detailed Notes

A. Assets and Deferred Outflows of Resources

1. Cash (Continued)

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

2. Receivables

The Community Corrections reports only due from other governments and did not have any receivables scheduled to be collected beyond one year as of December 31, 2016.

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

2. Detailed Notes

A. Assets and Deferred Outflows of Resources (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Office furniture and equipment	\$ 42,992	\$ -	\$ -	\$ 42,992
Vehicles	35,109	15,045	10,550	39,604
Total capital assets depreciated	\$ 78,101	\$ 15,045	\$ 10,550	\$ 82,596
Less: accumulated depreciation for				
Office furniture and equipment	\$ 32,053	\$ 994	\$ -	\$ 33,047
Vehicles	26,882	4,313	10,550	20,645
Total accumulated depreciation	\$ 58,935	\$ 5,307	\$ 10,550	\$ 53,692
Capital Assets, Net	\$ 19,166	\$ 9,738	\$ -	\$ 28,904

Depreciation expense of \$5,307 was charged to the Community Corrections' public safety function for the year ended December 31, 2016.

B. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2016, were as follows:

	Payables
Governmental Activities	
Accounts payable	\$ 2,289
Due to other governments	99
Salaries payable	14,687
Total Governmental Activities	\$ 17,075

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

2. Detailed Notes

B. Liabilities and Deferred Inflows of Resources (Continued)

2. Compensated Absences

Changes in compensated absences for the year ended December 31, 2016, were:

Payable at January 1	\$	36,404
Additions		32,268
Deductions		(34,006)
		<hr/>
Payable at December 31	\$	<u>34,666</u>

Of the total compensated absences of \$34,666, the amount due within one year is \$6,143.

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plan

1. Plan Description

All full-time and certain part-time employees of Rock Nobles Community Corrections are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan, 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 plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No Community Corrections' employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plan (Continued)

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.

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 Plan Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989.

For General Employees Retirement Plan 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.

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plan (Continued)

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. General Employees Retirement Plan Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in 2016.

In 2016, the Community Corrections was required to contribute the following percentage of annual covered salary:

General Employees Retirement Plan Coordinated Plan members	7.50%
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The employee and employer contribution rates did not change from the previous year.

The Community Corrections' contributions for the General Employees Retirement Plan for the year ended December 31, 2016, were \$36,957. The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

At December 31, 2016, the Community Corrections reported a liability of \$649,560 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the Community Corrections' proportion was 0.0080 percent. It was 0.0089 percent measured as of June 30, 2015. The Community Corrections recognized pension expense of \$78,216 for its proportionate share of the General Employees Retirement Plan's pension expense.

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plan

4. Pension Costs (Continued)

The Community Corrections also recognized \$2,528 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

Community Corrections' proportionate share of the net pension liability	\$ 649,560
State of Minnesota's proportionate share of the net pension liability associated with the Community Corrections	<u>8,479</u>
Total	<u>\$ 658,039</u>

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 54,335
Difference between projected and actual investment earnings	126,601	-
Changes in actuarial assumptions	127,184	-
Changes in proportion	-	46,726
Contributions paid to PERA subsequent to the measurement date	<u>20,011</u>	<u>-</u>
Total	<u>\$ 273,796</u>	<u>\$ 101,061</u>

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plan

4. Pension Costs (Continued)

The \$20,011 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, 2017. 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
2017	\$ 38,546
2018	38,546
2019	52,169
2020	23,463

5. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables. The cost of living benefit increases for retirees is assumed to be 1.0 percent.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015.

The long-term expected rate of return on pension plan investments is 7.5 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

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plan

5. Actuarial Assumptions (Continued)

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 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. 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, the fiduciary net position of the General Employees Retirement Plan 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.

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plan

7. Changes in Actuarial Assumptions

General Employees Retirement Plan (Continued)

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

8. 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:

	Proportionate Share of the General Employees Retirement Plan	
	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 922,568
Current	7.50	649,560
1% Increase	8.50	424,676

9. 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.

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

One employee of Rock Nobles 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. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by Rock Nobles Community Corrections during the year ended December 31, 2016, were:

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

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 2016, there were approximately 11 active participants and 1 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		203
Adjustment to ARC		(288)

Annual OPEB cost (expense)	\$	5,231
Contributions made during the year		(1,190)

Increase in net OPEB obligation	\$	4,041
Net OPEB Obligation - Beginning of Year		5,072

Net OPEB Obligation - End of Year	\$	9,113

**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, 2014, 2015, and 2016, 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</u>
December 31, 2014	\$ 3,186	\$ 1,319	41.4%	\$ 447
December 31, 2015	5,309	684	12.9	5,072
December 31, 2016	5,231	1,190	22.7	9,113

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 6.96 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, 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, 2016, was 21 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 \$500,000 per claim in 2016 and \$500,000 in 2017. 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.

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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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 712,487	\$ 712,487	\$ 707,267	\$ (5,220)
Charges for services	48,000	48,000	37,601	(10,399)
Interest on investments	-	-	1,602	1,602
Miscellaneous	-	-	3,703	3,703
Total Revenues	<u>\$ 760,487</u>	<u>\$ 760,487</u>	<u>\$ 750,173</u>	<u>\$ (10,314)</u>
Expenditures				
Current				
Public safety				
Personal services	\$ 692,487	\$ 692,487	\$ 643,546	\$ 48,941
Other services and charges	43,800	43,800	52,122	(8,322)
Supplies	8,700	8,700	7,437	1,263
Professional and technical services	15,500	15,500	34,372	(18,872)
Total Expenditures	<u>\$ 760,487</u>	<u>\$ 760,487</u>	<u>\$ 737,477</u>	<u>\$ 23,010</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,696</u>	<u>\$ 12,696</u>
Fund Balance - January 1	<u>254,763</u>	<u>254,763</u>	<u>254,763</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 254,763</u></u>	<u><u>\$ 254,763</u></u>	<u><u>\$ 267,459</u></u>	<u><u>\$ 12,696</u></u>

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

EXHIBIT A-2

**SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2016**

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	0.60%
January 1, 2012	-	35,235	35,235	0.00	480,152	7.34
January 1, 2015	-	35,362	35,362	0.00	508,251	6.96

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

EXHIBIT A-3

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Rock Nobles Community Corrections (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.0080%	\$ 649,560	\$ 8,479	\$ 658,039	\$ 494,848	131.26%	68.91%
2015	0.0089	461,244	N/A	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.
N/A - Not Applicable

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016**

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)
2016	\$ 36,957	\$ 36,957	\$ -	\$ 492,766	7.50%
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.

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

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 2016.

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.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 - Changes in Significant Plan Provisions and Actuarial Assumptions

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 Governmental Accounting Standards Board 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 change 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 projections of RP 2000 rates to 2012 to the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.

**ROCK NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA**

6. Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

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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, 2016**

Shared Revenue	
Payments from participating counties	\$ 253,988
Grants	
State	
Minnesota Department of Corrections	<u>453,279</u>
Total Intergovernmental Revenue	<u><u>\$ 707,267</u></u>

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE 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, 2016, and the related notes to the financial statements, which collectively comprise the Community Corrections' basic financial statements, and have issued our report thereon dated May 22, 2017.

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 or significant deficiencies. However, material weaknesses or significant deficiencies 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 administers no tax increment financing districts.

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

May 22, 2017