

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

ROCK-NOBLES COMMUNITY CORRECTIONS
WORTHINGTON, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

Year Ended December 31, 2005



**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
2005

Office	Name	Term Expires
Nobles County Commissioner	Norm Galagher ⁽¹⁾	January 2008
Nobles County Commissioner	David Benson ⁽¹⁾	January 2006
Rock County Commissioner	Kenneth Hoime ⁽¹⁾	January 2008
Rock County Commissioner	Jane Wildung ⁽¹⁾	January 2006
Rock County Attorney	Don Klosterbuer	January 2006
Rock County Family Services Director	Randy Ehlers	January 2006
Law Enforcement Rock County Sheriff	Mike Winkels ⁽¹⁾	January 2007
Appointees	Don Basche ⁽¹⁾⁽²⁾ Mike Harmon ⁽¹⁾	January 2006 January 2006
Position Director	Jon Ramlo	Indefinite
Fiscal Officer	Melvin Ruppert	Indefinite

⁽¹⁾Executive Committee

⁽²⁾Board Chair 2005 and 2006

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Executive Committee
Rock-Nobles Community Corrections

We have audited the accompanying financial statements of the governmental activities and the General Fund of Rock-Nobles Community Corrections as of and for the year ended December 31, 2005, which collectively comprise Rock-Nobles Community Corrections' basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Rock-Nobles Community Corrections' management. Our responsibility is to express an opinion 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the General Fund of Rock-Nobles Community Corrections as of December 31, 2005, and the changes in financial position thereof and the General Fund budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2006, 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* and should be considered in assessing the results of our audit.

/s/Pat Anderson

/s/Greg Hierlinger

PATRICIA ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 21, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005
(Unaudited)**

As management of Rock-Nobles Community Corrections (Agency), we offer the readers of the Agency's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2005. 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. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL REPORTING ENTITY

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

Nobles County acts as fiscal agent for the Agency and reports the cash transactions of Rock-Nobles Community Corrections as an agency fund in its annual financial statements.

FINANCIAL HIGHLIGHTS

- The assets of Rock-Nobles Community Corrections exceeded its liabilities by \$104,056 (net assets), of which \$19,494 is invested in capital assets (Exhibit 1), leaving unrestricted net assets of \$84,562.
- Rock-Nobles Community Corrections' total net assets increased by \$39,486 in 2005. This is attributable to revenues exceeding expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements. Rock-Nobles Community Corrections' basic financial statements consist of two statements that combine government-wide financial statements and fund financial statements, a budgetary comparison statement, 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.

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 operations and the basic services provided. 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 Assets 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 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 assets are one indicator of whether the Agency's financial health is improving or deteriorating.

Governmental Fund

Revenues for Rock Nobles-Community Corrections' General Fund increased by \$1,252, while total expenditures increased by \$16,313.

As shown in the Statement of Activities on Exhibit 2, the amount that was received through intergovernmental revenue was 92 percent of the total revenue received, or \$565,041.

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.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

Government-Wide Financial Analysis

Over time, net assets serve as a useful indicator of financial position. Rock-Nobles Community Corrections' assets exceeded liabilities by \$104,056 at the close of 2005. The largest portion of the Agency's net assets are current assets.

		Net Assets	
		2005	2004 (Restated)
		<u> </u>	<u> </u>
Assets			
Current and other assets	\$	153,178	\$ 116,002
Capital assets		<u>19,494</u>	<u>17,518</u>
Total Assets	\$	<u>172,672</u>	\$ 133,520
Liabilities			
Long-term liabilities	\$	48,906	\$ 47,885
Other liabilities		<u>19,710</u>	<u>21,065</u>
Total Liabilities	\$	<u>68,616</u>	\$ 68,950
Net Assets			
Invested in capital assets	\$	19,494	\$ 17,518
Unrestricted		<u>84,562</u>	<u>47,052</u>
Total Net Assets	\$	<u><u>104,056</u></u>	\$ <u><u>64,570</u></u>

Governmental Activities

Rock-Nobles Community Corrections' activities increased net assets during 2005 by \$39,486, which is less than the 2004 increase due to stagnant revenues and increasing expenditures. Key elements in this increase in net assets are as follows:

		Changes in Net Assets	
		2005	2004 (Restated)
		<u> </u>	<u> </u>
Revenues			
Intergovernmental	\$	565,041	\$ 560,009
Charges for services		34,200	37,192
Miscellaneous		<u>17,272</u>	<u>18,060</u>
Total Revenues	\$	<u>616,513</u>	\$ 615,261

	2005	2004 (Restated)
Expenses		
Personal services	\$ 504,776	\$ 484,434
Other services and charges	35,942	31,464
Supplies	7,987	10,756
Professional and technical services	20,430	28,228
Depreciation	7,892	5,832
	<hr/>	<hr/>
Total Expenses	\$ 577,027	\$ 560,714
	<hr/>	<hr/>
Increase in Net Assets	\$ 39,486	\$ 54,547
	<hr/>	<hr/>
Net Assets - January 1, restated	64,570	10,023
	<hr/>	<hr/>
Net Assets - December 31	\$ 104,056	\$ 64,570
	<hr/>	<hr/>

General Fund Budgetary Highlights

No differences between the original General Fund expenditure budget and the final budget were experienced in 2005.

Actual revenues were less than budgeted revenues by \$15,513, primarily due to less than expected charges for services.

Actual expenditures were less than budgeted expenditures by \$54,044. The less than expected expenditures reflect lower than anticipated expenditures for personal services, other services and charges, supplies, and professional and technical services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Rock-Nobles Community Corrections' depreciable capital assets at December 31, 2005, totaled \$19,494 (net of accumulated depreciation). This investment in capital assets includes automotive, office furniture, and equipment.

Governmental Capital Assets

	<u>2005</u>	<u>2004</u> (Restated)
Capital assets depreciated		
Office furniture and equipment	\$ 24,882	\$ 21,448
Automotive	<u>14,540</u>	<u>22,151</u>
Total capital assets depreciated	<u>\$ 39,422</u>	<u>\$ 43,599</u>
Less: accumulated depreciation for		
Office furniture and equipment	\$ 14,674	\$ 13,877
Automotive	<u>5,254</u>	<u>12,204</u>
Total accumulated depreciation	<u>\$ 19,928</u>	<u>\$ 26,081</u>
Total Capital Assets Depreciated, Net	<u><u>\$ 19,494</u></u>	<u><u>\$ 17,518</u></u>

Additional information on the Agency's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, Rock-Nobles Community Corrections had no outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

We continue to see an increase in the minority population that the Agency serves. Due to this fact, we continue to see an increase in the cost of providing interpretive services to this population. The largest increase in budgeting is anticipated to be staff salaries and benefits. By the end of 2005, the Executive Board approved its balanced 2006 revenue and expenditure budgets.

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 Jon P. Ramlo, Director of Rock-Nobles Community Corrections, 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 ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2005**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 116,297	\$ -	\$ 116,297
Petty cash and change funds	200	-	200
Due from other governments	32,303	-	32,303
Prepaid items	4,378	-	4,378
Capital assets			
Depreciable - net	-	19,494	19,494
Total Assets	\$ 153,178	\$ 19,494	\$ 172,672
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 1,271	\$ -	\$ 1,271
Salaries payable	17,829	-	17,829
Due to other governments	136	-	136
Due to primary government	474	-	474
Long-term liabilities			
Due within one year	-	3,423	3,423
Due in more than one year	-	45,483	45,483
Total Liabilities	\$ 19,710	\$ 48,906	\$ 68,616
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Reserved for prepaid items	\$ 4,378	\$ (4,378)	
Unreserved			
Undesignated	129,090	(129,090)	
Total Fund Balance	\$ 133,468	\$ (133,468)	
Total Liabilities and Fund Balance	\$ 153,178		
Net Assets			
Invested in capital assets		\$ 19,494	\$ 19,494
Unrestricted		84,562	84,562
Total Net Assets		\$ 104,056	\$ 104,056
Reconciliation of the Governmental Fund Balance to Net Assets			
Fund Balance - Governmental Fund			\$ 133,468
Capital assets are reported on the Statement of Net Assets but not in the Fund Balance Sheet.			19,494
Long-term liabilities are reported on the Statement of Net Assets but not in the Fund Balance Sheet.			(48,906)
Net Assets - Governmental Activities			\$ 104,056

**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 CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 565,041	\$ -	\$ 565,041
Charges for services	34,200	-	34,200
Miscellaneous	17,272	-	17,272
Total Revenues	\$ 616,513	\$ -	\$ 616,513
Expenditures/Expenses			
Current			
Public safety			
Personal services	\$ 503,755	\$ 1,021	\$ 504,776
Other services and charges	38,942	(3,000)	35,942
Supplies	11,070	(3,083)	7,987
Professional and technical services	20,430	-	20,430
Depreciation	-	7,892	7,892
Capital outlay	3,785	(3,785)	-
Total Expenditures/Expenses	\$ 577,982	\$ (955)	\$ 577,027
Net Change in Fund Balance/Net Assets	\$ 38,531	\$ 955	\$ 39,486
Fund Balance/Net Assets - January 1, restated (Note 1.E.)	94,937	(30,367)	64,570
Fund Balance/Net Assets - December 31	\$ 133,468	\$ (29,412)	\$ 104,056

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

Net Change in Fund Balance		\$ 38,531
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.		
Capital outlay		9,868
Depreciation expense		(7,892)
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.		
The adjustment is the change in compensated absences payable.		(1,021)
Change in Net Assets of Governmental Activities		\$ 39,486

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

EXHIBIT 3

**STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 569,026	\$ 569,026	\$ 565,041	\$ (3,985)
Charges for services	45,000	45,000	34,200	(10,800)
Miscellaneous	18,000	18,000	17,272	(728)
Total Revenues	\$ 632,026	\$ 632,026	\$ 616,513	\$ (15,513)
Expenditures				
Current				
Public safety				
Personal services	\$ 526,836	\$ 526,836	\$ 503,755	\$ 23,081
Other services and charges	47,400	47,400	38,942	8,458
Supplies	13,000	13,000	11,070	1,930
Professional and technical services	33,790	33,790	20,430	13,360
Total public safety	\$ 621,026	\$ 621,026	\$ 574,197	\$ 46,829
Capital outlay				
Public safety	11,000	11,000	3,785	7,215
Total Expenditures	\$ 632,026	\$ 632,026	\$ 577,982	\$ 54,044
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 38,531	\$ 38,531
Fund Balance - January 1	94,937	94,937	94,937	-
Fund Balance - December 31	\$ 94,937	\$ 94,937	\$ 133,468	\$ 38,531

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Summary of Significant Accounting Policies

Rock-Nobles Community Corrections' (Agency) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) which do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by Rock-Nobles Community Corrections are discussed below.

A. Financial Reporting Entity

Rock-Nobles Community Corrections was created pursuant to the provisions of the Community Corrections Act, January 1, 1979. The Agency 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 Agency is staffed with corrections professionals.

Program planning is the responsibility of an advisory board. Policy, program, and budget management are accomplished through an Executive Committee 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.

Nobles County acts as fiscal agent for the Agency and reports the cash transactions of Rock-Nobles Community Corrections as an agency fund in its annual financial statements.

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

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

Basic financial statements include information on the Agency's activities as a whole and information on the individual fund of the Agency. These separate presentations are reported in different columns on Exhibits 1 and 2. Each of the exhibits 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 Agency 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 Agency's net assets are reported in two parts: invested in capital assets and unrestricted net assets. The statement of activities demonstrates the degree to which the expenses of the Agency 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 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 revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Rock-Nobles 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 susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of 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 Rock-Nobles Community Corrections' policy to use restricted resources first and then unrestricted resources as needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Deposits and investments are reported at their fair value at December 31, 2005, based on market prices.

2. Receivables

The financial statements for the Agency contain no allowance for uncollectible accounts. Uncollectible amounts due for 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. Capital Assets

Capital assets, which include office furniture and equipment and automotive equipment, are reported in the governmental activities column in the statement of net assets. Capital assets are defined as assets with an initial, individual cost of more than \$750 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Capital Assets (Continued)

Office furniture and equipment and automotive equipment 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
Automotive equipment	3 - 20

4. Compensated Absences

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

5. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

6. Long-Term Liabilities

Long-term liabilities are not reported in the fund. The General Fund reports only liabilities that are expected to be financed with available, spendable financial resources. The Statement of Net Assets reports long-term liabilities of the governmental activities.

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

1. Summary of Significant Accounting Policies

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

7. Fund Equity

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

8. 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 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. Prior Period Adjustment

Net assets for governmental activities at January 1, 2005, have been restated. The restatement is as follows:

Net assets, as previously reported	\$ 60,445
Incorrect recording of capital asset values	<u>4,125</u>
Net Assets, as Restated	<u>\$ 64,570</u>

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Cash transactions are administered by the Nobles County Auditor/Treasurer, who is, according to Minn. Stat. §§ 118A.02 and 118A.04, authorized to deposit cash in financial institutions designated by the County Board for the Agency.

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Reconciliation of the Agency's total cash, as reported in the basic financial statements to deposits, cash on hand, and investments, follows:

Deposits	\$ 116,297
Petty cash and change funds	<u>200</u>
Total Deposits and Cash on Hand	<u>\$ 116,497</u>

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize Rock-Nobles Community Corrections to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires all Agency deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes U.S. Treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard 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 on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Agency's deposits may not be returned to it. The Agency does not have a deposit policy for custodial credit risk. As of December 31, 2005, the Agency's deposits were not exposed to custodial credit risk.

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the Agency:

- (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 on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

During the year ended December 31, 2005, Rock-Nobles Community Corrections had no investments.

2. Receivables

The Agency did not have any receivables scheduled to be collected beyond one year as of December 31, 2005.

3. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increase	Adjustment	Decrease	Ending Balance
Capital assets depreciated					
Office furniture and equipment	\$ 16,512	\$ 6,868	\$ 4,936	\$ 3,434	\$ 24,882
Automotive equipment	21,161	3,000	990	10,611	14,540
Total capital assets depreciated	\$ 37,673	\$ 9,868	\$ 5,926	\$ 14,045	\$ 39,422
Less: accumulated depreciation for					
Office furniture and equipment	\$ 11,921	\$ 4,231	\$ 1,956	\$ 3,434	\$ 14,674
Automotive equipment	12,359	3,661	(155)	10,611	5,254
Total accumulated depreciation	\$ 24,280	\$ 7,892	\$ 1,801	\$ 14,045	\$ 19,928
Total Capital Assets Depreciated, Net	\$ 13,393	\$ 1,976	\$ 4,125	\$ -	\$ 19,494

Depreciation expense was charged to Public Safety programs for the year ended December 31, 2005. The adjustments are a prior period adjustment (See Note 1.E.) due to a change in the reporting threshold for capital assets. The threshold decreased from \$1,500 to \$750.

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

2. Detailed Notes on All Funds (Continued)

B. Liabilities

1. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 47,885	\$ 1,021	-	\$ 48,906	\$ 3,423

2. Employee Retirement Systems and Pension Plans

A. 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). The PERA administers the Public 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.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for

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

2. Detailed Notes on All Funds

B. Liabilities

2. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. 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.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public 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.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. Rock-Nobles Community Corrections makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased to 5.50 percent in 2006.

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

2. Detailed Notes on All Funds

B. Liabilities

2. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

Rock-Nobles Community Corrections is required to contribute the following percentages of annual covered payroll in 2005 and 2006:

	<u>2005</u>	<u>2006</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	5.53	6.00

The Agency's contributions for the years ending December 31, 2005, 2004, and 2003, were \$21,673, \$21,093, and \$19,324 respectively, equal to the contractually required contributions for each year as set by state statute.

3. Risk Management

Rock-Nobles 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. The Agency has entered into a joint powers agreement with certain Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT) to cover its workers' compensation and property and casualty liabilities.

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 \$760,000 per claim in 2005 and \$390,000 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Agency in a method and amount to be determined by MCIT.

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

2. Detailed Notes on All Funds

B. Liabilities

3. Risk Management (Continued)

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

Rock-Nobles Community Corrections has not reduced insurance coverage in the past year and has not had settlements in excess of insurance coverage in any of the past three years.

3. 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 federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although Rock-Nobles Community Corrections expects such amounts, if any, to be immaterial.

Rock-Nobles Community Corrections is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Agency's Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

SUPPORTING SCHEDULE

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

Schedule 1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2005**

Shared Revenue	
Contributions from counties	\$ 143,058
Grants	
State	
Minnesota Department of Corrections	<u>421,983</u>
Total Intergovernmental Revenue	<u><u>\$ 565,041</u></u>

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

Schedule 2

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

None.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM RESOLVED

Capital Assets Capitalization Threshold (02-2)

In 2000, Rock-Nobles Community Corrections (Agency) adopted Nobles County's capital assets policy in which only assets over \$5,000 each are used for reporting purposes. By adopting a capitalization threshold at such a high amount, the Agency eliminated 56 percent of its capital assets for reporting purposes.

Resolution

At the September 20, 2005, Executive Board meeting, the threshold was changed to \$750 for capital assets.

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

Schedule 2
(Continued)

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the Agency will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the Agency will have to decide whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the Agency determines that the establishment of a trust is desirable in order to fund the OPEB, the Agency will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the Agency will have to decide whether to hire an actuary.

If applicable for Rock-Nobles Community Corrections, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2008 and 2009.



PATRICIA ANDERSON
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*

Rock-Nobles Community Corrections
Worthington, Minnesota

We have audited the financial statements of the governmental activities and the General Fund of Rock-Nobles Community Corrections as of and for the year ended December 31, 2005, and have issued our report thereon dated August 21, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rock-Nobles Community Corrections' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Rock-Nobles Community Corrections complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of Rock-Nobles Community Corrections and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 21, 2006