

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA

YEARS ENDED DECEMBER 31, 2004 AND 2005

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

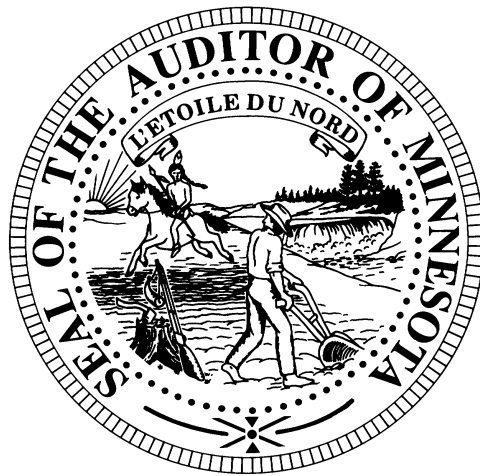
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

Years Ended December 31, 2004 and 2005



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

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**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

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**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

ORGANIZATION SCHEDULE
2005

EXECUTIVE COMMITTEE

County	Name	Term Expires
Chippewa	Kenneth Koenen	January 2009
Chippewa	Gene Van Binsbergen ¹	January 2007
Lac qui Parle	Merril Johnson	January 2007
Lac qui Parle	Albert Hoffman	January 2009
Swift	John Baker	January 2007
Swift	Douglas Anderson	January 2009
Yellow Medicine	Lynn W. Anderson	January 2007
Yellow Medicine	Gary Johnson ²	January 2009

Position		
Judge	The Honorable Bruce Christopherson	Indefinite
Program Director	Midge Christianson	Indefinite
Administrative Assistant	Rosemary Lens	Indefinite

¹Chair

²Vice Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Executive Board
Region 6W Community Corrections

We have audited the accompanying financial statements of the governmental activities and the General Fund of Region 6W Community Corrections as of and for the years ended December 31, 2004 and 2005, which collectively comprise Region 6W's basic financial statements. These financial statements are the responsibility of Region 6W Community Corrections' management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 Region 6W Community Corrections as of December 31, 2004 and 2005, and the changes in financial position thereof and the General Fund budgetary comparison for the years 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 financial statements that collectively comprise Region 6W Community Corrections' basic financial statements. 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 Region 6W 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.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 22, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004 AND 2005
(Unaudited)**

As management of Region 6W Community Corrections, we offer the readers of Region 6W's financial statements this narrative overview and analysis of its financial activities for the fiscal years ended December 31, 2004 and 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

Region 6W 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 western Minnesota counties of Chippewa, Lac qui Parle, Swift, and Yellow Medicine; it is responsible for juvenile and adult court clients. Region 6W 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.

Chippewa County acts as fiscal agent for Region 6W and reports the cash transactions of Region 6W Community Corrections as an agency fund in its annual financial statements.

FINANCIAL HIGHLIGHTS

At December 31, 2004, the assets of Region 6W Community Corrections exceeded its liabilities by \$140,761 (net assets), of which \$36,885 is invested in capital assets (Exhibit 1), leaving unrestricted net assets of \$103,876. In 2005, assets exceeded liabilities by \$185,477, of which \$30,710 is invested in capital assets (Exhibit 4), leaving unrestricted net assets of \$154,767.

Region 6W Community Corrections' total net assets decreased by \$186 in 2004 and increased by \$44,716 in 2005. This is attributable to revenues increasing more than 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. Region 6W Community Corrections' basic financial statements for each year 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 Region 6W Community Corrections as a whole and present a longer-term view of the 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 its financial health is improving or deteriorating.

Governmental Fund

In 2004, revenues for Region 6W Community Corrections' General Fund decreased by \$59,070, while total expenditures increased by \$7,891. For 2005, revenues increased by \$128,734, while total expenditures increased by \$72,719.

As shown in the Statement of Activities on Exhibits 2 and 5, the amount received through intergovernmental revenue was 95 percent of the total revenue received, or \$788,580 for 2004, and 95 percent, or \$912,151, for 2005.

Region 6W 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 Region 6W Community Corrections' intergovernmental revenues.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of financial position. Region 6W Community Corrections' assets exceeded liabilities by \$185,477 at the close of 2005. The largest portion of Region 6W's net assets reflects current assets.

	Net Assets		
	2005	2004	2003
Assets			
Current and other assets	\$ 241,331	\$ 210,665	\$ 183,458
Capital assets	<u>30,710</u>	<u>36,885</u>	<u>35,943</u>
Total Assets	<u>\$ 272,041</u>	<u>\$ 247,550</u>	<u>\$ 219,401</u>
Liabilities			
Long-term liabilities	\$ 66,665	\$ 60,681	\$ 60,524
Other liabilities	<u>19,899</u>	<u>46,108</u>	<u>17,930</u>
Total Liabilities	<u>\$ 86,564</u>	<u>\$ 106,789</u>	<u>\$ 78,454</u>
Net Assets			
Invested in capital assets	\$ 30,710	\$ 36,885	\$ 35,943
Unrestricted	<u>154,767</u>	<u>103,876</u>	<u>105,004</u>
Total Net Assets	<u>\$ 185,477</u>	<u>\$ 140,761</u>	<u>\$ 140,947</u>

Governmental Activities

Region 6W Community Corrections' activities decreased the net assets during 2004 by \$186, which is primarily due to a decrease in intergovernmental revenues and an increase in expenditures. Net assets increased by \$44,716 in 2005, which is primarily due to an increase in offender generated supervision fees and the amount contributed by each member county. Key elements in these increases in net assets are as follows:

Changes in Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues			
Intergovernmental	\$ 912,151	\$ 788,580	\$ 850,264
Miscellaneous	<u>48,030</u>	<u>42,867</u>	<u>39,953</u>
Total Revenues	<u>\$ 960,181</u>	<u>\$ 831,447</u>	<u>\$ 890,217</u>
Expenses			
Public safety	\$ 882,268	\$ 799,133	\$ 798,273
Intergovernmental	<u>33,197</u>	<u>32,500</u>	<u>16,250</u>
Total Expenses	<u>\$ 915,465</u>	<u>\$ 831,633</u>	<u>\$ 814,523</u>
Increase (Decrease) in Net Assets	\$ 44,716	\$ (186)	\$ 75,694
Net Assets - January 1	<u>140,761</u>	<u>140,947</u>	<u>65,253</u>
Net Assets - December 31	<u>\$ 185,477</u>	<u>\$ 140,761</u>	<u>\$ 140,947</u>

General Fund Budgetary Highlights

Actual revenues exceeded budgeted revenues by \$27,217 in 2005, primarily due to more than expected intergovernmental revenue.

Actual expenditures were less than budgeted expenditures by \$89,051. The less than expected expenditures reflect lower than anticipated expenditures for personal services and other services and charges.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Region 6W Community Corrections' depreciable capital assets totaled \$36,885 (net of accumulated depreciation) at December 31, 2004, and \$30,710 at December 31, 2005. This investment in capital assets includes automotive, office furniture, and equipment.

Governmental Capital Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Capital assets depreciated			
Office furniture and equipment	\$ 43,276	\$ 43,276	\$ 36,159
Automotive	<u>18,473</u>	<u>18,473</u>	<u>18,473</u>
Total capital assets depreciated	<u>\$ 61,749</u>	<u>\$ 61,749</u>	<u>\$ 54,632</u>
Less: accumulated depreciation for			
Office furniture and equipment	\$ 21,803	\$ 17,475	\$ 13,147
Automotive	<u>9,236</u>	<u>7,389</u>	<u>5,542</u>
Total accumulated depreciation	<u>\$ 31,039</u>	<u>\$ 24,864</u>	<u>\$ 18,689</u>
Total Capital Assets Depreciated, Net	<u>\$ 30,710</u>	<u>\$ 36,885</u>	<u>\$ 35,943</u>

Additional information on Region 6W's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, Region 6W Community Corrections had no outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The most significant economic factor facing Region 6W Community Corrections within the next several years will be the economical and political climate surrounding state and county budget issues. State funding via the Community Corrections Act subsidy and other correctional funding streams has remained flat for the past several years, without even inflationary increases. The existing administration at the state level continues to hold steady on pledges not to increase revenues by raising taxes. However, at the local level, use of probation services continues to be heavy, and caseloads and associated costs continue to rise. Without increases in state revenue, the member counties are left to meet the growing demands by raising the county contribution amounts. In turn, local property taxes will continue to rise.

Region 6W Community Corrections has attempted to control expenses by focusing on efficiency. In 2006, the Executive Board voted to discontinue renting office space for the central office in Montevideo and chose instead to purchase a building. This was accomplished by borrowing funds from Chippewa County, which will be paid back over the course of ten years. During this ten-year time span, Region 6W Community Corrections would have spent an equal amount on rent as it will spend to purchase and remodel a building. However, at the end of the next ten years, Region 6W Community Corrections will retain ownership and equity in the building in addition to gaining the flexibility that comes with ownership. This will require a shift in budgeting and accounting practices, as Region 6W Community Corrections has never owned property in the past.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Region 6W Community Corrections' finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Midge Christianson, Program Director, P.O. Box 511, Montevideo, Minnesota 56265.

BASIC FINANCIAL STATEMENTS

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**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2004**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 179,462	\$ -	\$ 179,462
Due from other governments	31,203	-	31,203
Noncurrent assets			
Capital assets			
Depreciable - net	-	36,885	36,885
	-	36,885	36,885
Total Assets	\$ 210,665	\$ 36,885	\$ 247,550
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 7,853	\$ -	\$ 7,853
Salaries payable	6,395	-	6,395
Due to other governments	3,089	-	3,089
Deferred revenue - unearned	26,695	-	26,695
Long-term liabilities			
Due within one year	-	2,076	2,076
Due in more than one year	-	60,681	60,681
	-	60,681	60,681
Total Liabilities	\$ 44,032	\$ 62,757	\$ 106,789
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	166,633	\$ (166,633)	
	166,633	(166,633)	
Total Liabilities and Fund Balance	\$ 210,665		
Net Assets			
Invested in capital assets		\$ 36,885	\$ 36,885
Unrestricted		103,876	103,876
		103,876	103,876
Total Net Assets		\$ 140,761	\$ 140,761
Reconciliation of the Governmental Fund Balance to Net Assets			
Fund Balance - Governmental Fund			\$ 166,633
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.			36,885
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.			(62,757)
Net Assets - Governmental Activities			\$ 140,761

**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 788,580	\$ -	\$ 788,580
Miscellaneous	42,867	-	42,867
Total Revenues	\$ 831,447	\$ -	\$ 831,447
Expenditures/Expenses			
Current			
Public safety			
Depreciation	\$ -	\$ 6,175	\$ 6,175
Personal services	620,089	2,233	622,322
Other services and charges	142,675	-	142,675
Supplies	27,961	-	27,961
Intergovernmental	32,500	-	32,500
Capital outlay	7,117	(7,117)	-
Total Expenditures/Expenses	\$ 830,342	\$ 1,291	\$ 831,633
Net Change in Fund Balance/Net Assets	\$ 1,105	\$ (1,291)	\$ (186)
Fund Balance/Net Assets - January 1	165,528	(24,581)	140,947
Fund Balance/Net Assets - December 31	\$ 166,633	\$ (25,872)	\$ 140,761
Reconciliation of the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities			
Net Change in Fund Balance			\$ 1,105
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 expenditures		\$ 7,117	
Current year depreciation expense		(6,175)	942
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			(2,233)
Change in Net Assets of Governmental Activities			\$ (186)

**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

EXHIBIT 3

**BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 833,729	\$ 833,729	\$ 788,580	\$ (45,149)
Miscellaneous	40,000	40,000	42,867	2,867
Total Revenues	\$ 873,729	\$ 873,729	\$ 831,447	\$ (42,282)
Expenditures				
Current				
Public safety				
Personal services	\$ 634,739	\$ 634,739	\$ 620,089	\$ 14,650
Other services and charges	170,535	170,535	142,675	27,860
Supplies	35,630	35,630	27,961	7,669
Total public safety	\$ 840,904	\$ 840,904	\$ 790,725	\$ 50,179
Intergovernmental				
Public safety	33,000	33,000	32,500	500
Capital outlay				
Public safety	8,000	8,000	7,117	883
Total Expenditures	\$ 881,904	\$ 881,904	\$ 830,342	\$ 51,562
Net Change in Fund Balance	\$ (8,175)	\$ (8,175)	\$ 1,105	\$ 9,280
Fund Balance - January 1	165,528	165,528	165,528	-
Fund Balance - December 31	\$ 157,353	\$ 157,353	\$ 166,633	\$ 9,280

**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

EXHIBIT 4

**STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2005**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 223,436	\$ -	\$ 223,436
Accounts receivable	20	-	20
Due from other governments	17,875	-	17,875
Noncurrent assets			
Capital assets			
Depreciable - net	-	30,710	30,710
	\$ 241,331	\$ 30,710	\$ 272,041
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 10,641	\$ -	\$ 10,641
Salaries payable	6,177	-	6,177
Due to other governments	760	-	760
Long-term liabilities			
Due within one year	-	2,321	2,321
Due in more than one year	-	66,665	66,665
	\$ 17,578	\$ 68,986	\$ 86,564
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	223,753	\$ (223,753)	
	\$ 241,331		
Net Assets			
Invested in capital assets		\$ 30,710	\$ 30,710
Unrestricted		154,767	154,767
		\$ 185,477	\$ 185,477
Reconciliation of the Governmental Fund Balance to Net Assets			
Fund Balance - Governmental Fund			\$ 223,753
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.			30,710
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.			(68,986)
Net Assets - Governmental Activities			\$ 185,477

**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

EXHIBIT 5

**STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 912,151	\$ -	\$ 912,151
Miscellaneous	48,030	-	48,030
Total Revenues	\$ 960,181	\$ -	\$ 960,181
Expenditures/Expenses			
Current			
Public safety			
Depreciation	\$ -	\$ 6,175	\$ 6,175
Personal services	709,661	6,229	715,890
Other services and charges	134,928	-	134,928
Supplies	25,275	-	25,275
Intergovernmental	33,197	-	33,197
Total Expenditures/Expenses	\$ 903,061	\$ 12,404	\$ 915,465
Net Change in Fund Balance/Net Assets	\$ 57,120	\$ (12,404)	\$ 44,716
Fund Balance/Net Assets - January 1	166,633	(25,872)	140,761
Fund Balance/Net Assets - December 31	\$ 223,753	\$ (38,276)	\$ 185,477
Reconciliation of the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities			
Net Change in Fund Balance			\$ 57,120
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 expenditures		\$ -	
Current year depreciation expense		(6,175)	(6,175)
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			(6,229)
Change in Net Assets of Governmental Activities			\$ 44,716

**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

EXHIBIT 6

**BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 895,964	\$ 895,964	\$ 912,151	\$ 16,187
Miscellaneous	37,000	37,000	48,030	11,030
Total Revenues	\$ 932,964	\$ 932,964	\$ 960,181	\$ 27,217
Expenditures				
Current				
Public safety				
Personal services	\$ 747,468	\$ 747,468	\$ 709,661	\$ 37,807
Other services and charges	168,144	168,144	134,928	33,216
Supplies	33,000	33,000	25,275	7,725
Total public safety	\$ 948,612	\$ 948,612	\$ 869,864	\$ 78,748
Intergovernmental				
Public safety	33,000	33,000	33,197	(197)
Capital outlay				
Public safety	10,500	10,500	-	10,500
Total Expenditures	\$ 992,112	\$ 992,112	\$ 903,061	\$ 89,051
Net Change in Fund Balance	\$ (59,148)	\$ (59,148)	\$ 57,120	\$ 116,268
Fund Balance - January 1	166,633	166,633	166,633	-
Fund Balance - December 31	\$ 107,485	\$ 107,485	\$ 223,753	\$ 116,268

**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005

1. Summary of Significant Accounting Policies

Region 6W Community Corrections' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the years ended December 31, 2004 and 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) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by Region 6W Community Corrections are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- a Management's Discussion and Analysis section providing an analysis of Region 6W's overall financial position and results of operations and
- Region 6W's financial statements prepared using full accrual accounting for all of Region 6W's activities, including infrastructure.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). Region 6W Community Corrections has elected to implement all provisions of the statement in the current year.

A. Financial Reporting Entity

Region 6W Community Corrections was created pursuant to the provisions of the Community Corrections Act, October 1, 1977. Region 6W provides probation and parole services to the far western Minnesota counties of Chippewa, Swift, Lac qui Parle, and Yellow Medicine; it is responsible for juvenile and adult court clients. Region 6W 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.

**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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

Chippewa County acts as fiscal agent for Region 6W and reports the cash transactions of Region 6W Community Corrections as an agency fund in its annual financial statements.

B. Basic Financial Statements

Basic financial statements include information on Region 6W's activities as a whole and information on the individual fund of Region 6W. These separate presentations are reported in different columns on Exhibits 1, 2, 4, and 5. 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 Region 6W 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. Region 6W'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 Region 6W 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. Region 6W

**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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.

When both restricted and unrestricted resources are available for use, it is Region 6W Community Corrections' policy to use restricted resources first and then unrestricted resources as needed.

D. Budgetary Data

The Executive Committee of Region 6W Community Corrections adopts estimated revenue and expenditure budgets for the General Fund on the modified accrual basis of accounting. The budget is adopted on a basis consistent with generally accepted accounting principles.

E. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Cash is on deposit with Chippewa County.

2. Receivables

The financial statements for Region 6W 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 uncollectibility of the particular receivable. These amounts are not considered to be material in relation to the financial position or operations of the fund.

**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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 \$1,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market 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.

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 to 15
Automotive equipment	3 to 15

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 General Fund only if it has matured, for example, as a result of employee resignations and retirements.

**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Deferred Revenue

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

6. Long-Term Liabilities

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

7. Fund Equity and Net Assets

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. Region 6W Community Corrections reported no reservations or designations for the years ended December 31, 2004 and 2005.

Net assets invested in capital assets represents the accumulated value of the capital assets of Region 6W.

Unrestricted net assets represent the accumulated earnings of Region 6W.

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.

**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

2. Detailed Notes

A. Assets

1. Cash

Cash transactions are administered by the Chippewa 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. Minn. Stat. §§ 118A.04 and 118A.05 authorize the types of investments available to the County. Minnesota statutes require that all county deposits be covered by insurance, surety bond, or collateral, a requirement which Chippewa County was in compliance with, except at December 31, 2005, when \$657,537 of their deposits were not covered by insurance, surety bond, or collateral. As of December 31, 2005, \$223,436 was on deposit with Chippewa County.

2. Receivables

Region 6W did not have any receivables expected to be collected beyond one year at December 31, 2004 and 2005.

Due from other governments consists of \$31,203 at December 31, 2004, and \$17,875 at December 31, 2005. Both amounts were due from the state.

3. Capital Assets

Capital asset activity for the year ended December 31, 2004 and 2005, was as follows:

2004

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Office furniture and equipment	\$ 36,159	\$ 7,117	\$ -	\$ 43,276
Automotive equipment	18,473	-	-	18,473
Total capital assets depreciated	\$ 54,632	\$ 7,117	\$ -	\$ 61,749

**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

2. Detailed Notes

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Office furniture and equipment	\$ 13,147	\$ 4,328	\$ -	\$ 17,475
Automotive equipment	5,542	1,847	-	7,389
Total accumulated depreciation	\$ 18,689	\$ 6,175	\$ -	\$ 24,864
Total Capital Assets Depreciated, Net	\$ 35,943	\$ 942	\$ -	\$ 36,885

2005

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Office furniture and equipment	\$ 43,276	\$ -	\$ -	\$ 43,276
Automotive equipment	18,473	-	-	18,473
Total capital assets depreciated	\$ 61,749	\$ -	\$ -	\$ 61,749
Less: accumulated depreciation for				
Office furniture and equipment	\$ 17,475	\$ 4,328	\$ -	\$ 21,803
Automotive equipment	7,389	1,847	-	9,236
Total accumulated depreciation	\$ 24,864	\$ 6,175	\$ -	\$ 31,039
Total Capital Assets Depreciated, Net	\$ 36,885	\$ (6,175)	\$ -	\$ 30,710

Depreciation expense of \$6,175 was charged to the public safety function for each of the years ending December 31, 2004 and 2005.

**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

2. Detailed Notes (Continued)

B. Liabilities

Changes in Long-Term Liabilities

Long-term liability activity for the years ended December 31, 2004 and 2005, was as follows:

2004

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 60,524	\$ 2,233	\$ -	\$ 62,757	\$ 2,076

2005

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 62,757	\$ 6,229	\$ -	\$ 68,986	\$ 2,321

3. Employee Retirement Systems and Pension Plans

A. Plan Description

All full-time and certain part-time employees of Region 6W Community Corrections are covered by defined benefit 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.

**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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 each year thereafter. 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. Region 6W 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 were required to contribute 9.10 and

**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. Region 6W is required to contribute the following percentages of annual covered payroll:

In 2005

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53

In 2006

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.00

Region 6W's contributions for the years ending December 31, 2005, 2004, and 2003, were \$31,243, \$27,505, and \$27,814, respectively, equal to the contractually required contributions for each year as set by state statute.

4. Risk Management

Region 6W 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. Region 6W 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 \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess Region 6W in a method and amount to be determined by MCIT.

**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

4. Risk Management (Continued)

The Property and Casualty Division of MCIT is self-sustaining, and Region 6W 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 Region 6W in a method and amount to be determined by MCIT.

Region 6W 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.

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Amounts received or receivable from grant 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 Region 6W Community Corrections expects such amounts, if any, to be immaterial.

Region 6W Community Corrections is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of Region 6W's Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

B. Subsequent Event

On November 2, 2006, the Executive Board approved the purchase of a building for Region 6W. Chippewa County agreed to loan Region 6W \$120,000 for the purchase and remodeling of the building. Region 6W will make semi-annual payments to the County for ten years with six percent interest.

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SUPPORTING SCHEDULE

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REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA

Schedule 1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005

	<u>2004</u>	<u>2005</u>
Shared Revenue		
Contributions from counties	\$ 221,874	\$ 311,735
Grants		
State		
Minnesota Department of Corrections	<u>566,706</u>	<u>600,416</u>
Total Intergovernmental Revenue	<u>\$ 788,580</u>	<u>\$ 912,151</u>

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**REGION 6W COMMUNITY CORRECTIONS
MONTEVIDEO, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005**

I. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

01-1 Capital Assets

To comply with Governmental Accounting Standards Board (GASB) Statement 34, Region 6W Community Corrections staff established accounting policies for capital assets including capitalization thresholds, useful lives, and the designation of specific general ledger accounting codes to record the purchases and construction costs of capital assets. Region 6W is capitalizing items over \$1,500 and depreciating them over their assigned useful lives, but there is no Board-approved policy to support these.

We recommend the Executive Board develop and implement policies and procedures, appropriate to the entity, to strengthen internal control over capital assets. Policies and procedures should include the following to meet the requirements of generally accepted accounting principles:

- establish a formal capitalization policy appropriate for the entity that should be approved by the Executive Board and should address buildings, vehicles, computers, and items of a certain value appropriate to the entity;
- reconciliation of the detailed equipment records to the financial statement capital asset records;
- establish reasonable useful lives for capital assets; and
- establish an ongoing system for identifying purchases and dispositions of all capital assets meeting the requirements of the capitalization policy.

Client's Response:

We will develop and implement policies and procedures to strengthen internal control over capital assets.

II. OTHER ITEM FOR CONSIDERATION

Governmental Accounting Standards Board Statements

Other Postemployment Benefits (OPEB)

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.

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 Region 6W will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, Region 6W will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and Region 6W determines that the establishment of a trust is desirable in order to fund the OPEB, Region 6W 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, Region 6W will have to decide whether to hire an actuary.

If applicable for Region 6W Community Corrections, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2008 and 2009, respectively.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON MINNESOTA LEGAL COMPLIANCE

Executive Board
Region 6W Community Corrections

We have audited the financial statements of the governmental activities and the General Fund of Region 6W Community Corrections as of and for the years ended December 31, 2004 and 2005, and have issued our report thereon dated February 22, 2007.

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 five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories, except that we did not test for compliance in contracting and bidding, as no contracts were noted; or deposits and investments because Region 6W Community Corrections' funds are held by a fiscal agent.

The results of our tests indicate that, for the items tested, Region 6W Community Corrections complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Executive Board and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 22, 2007