

**COUNTY OF RICE AND
COUNTY OF STEELE**

JOINT POWERS FOR DETENTION CENTER

COMPILED FINANCIAL PROJECTION

YEAR ENDING DECEMBER 31, 2008

**PROPOSED JOINT POWERS AGREEMENT FOR THE
STEELE COUNTY/RICE COUNTY DETENTION CENTER
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YEAR ENDING DECEMBER 31, 2008**

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ACCOUNTANTS' COMPILATION REPORT

Board of Commissioners
County of Rice and
County of Steele
Minnesota

We have compiled the accompanying projected statements of revenues and expenses and supplementary information of the proposed Joint Powers Agreement for the Detention Center for the period ending December 31, 2008, in accordance with attestation standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of a projection of information that is the representation of management and does not include evaluation of the support for the assumptions underlying the projection. We have not examined the projection and, accordingly, do not express an opinion or any other form of assurance on the accompanying statements or assumptions. Furthermore, even if the counties come together on the joint powers agreement for the Detention Center, there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Management has elected to omit the summary of significant accounting policies required by the guidelines for presentation of a projection established by the American Institute of Certified Public accountants. If the omitted disclosures were included in the projection, they might influence the user's conclusions about the project's results of operations for the projection period. Accordingly, this projection is not designed for those who are not informed about such matters.


LarsonAllen LLP

Minneapolis, Minnesota
March 24, 2008

**PROPOSED JOINT POWERS AGREEMENT FOR THE
STEELE COUNTY/RICE COUNTY DETENTION CENTER
SUMMARY OF SIGNIFICANT ASSUMPTIONS AND ACCOUNTING POLICIES
YEAR ENDING DECEMBER 31, 2008
(SEE ACCOUNTANTS' COMPILATION REPORT)**

SUMMARY OF SIGNIFICANT ASSUMPTIONS AND ACCOUNTING POLICIES

BACKGROUND INFORMATION

BASIS OF PRESENTATION

The purpose of the projection is to evaluate the possibility of a joint powers agreement being made between the Counties of Steele and Rice, Minnesota for the owning and use of a 160 unit detention center. Currently the County of Steele (Steele) owns and operates a detention center located in Owatonna, Minnesota. The County of Rice (Rice) is considering the alternatives of constructing a detention center to replace its existing center or forming a joint powers agreement with Steele to jointly own and operate the 160 bed existing facility.

Steele and Rice have listed those assumptions considered more informative and key to the presentation. The projection presents the combined management groups analysis of the 2008 costs of a combined use based upon historical costs of operation, staffing and debt service. The projection is of the 160 unit existing detention center and planned changes necessary for the joint use.

PROPERTY VALUE AND EXISTING DEBT

As part of this projection varying allocation methods have been evaluated for Rice and Steele in their discussions of operation and how best to allocate certain costs of the facility. One cost area to be considered was the costs related to the existing debt service of the existing facility. The projection has allocated the cost upon an agreed upon value between Steele and Rice of the existing facility. The existing debt service is prorated based upon that agreed price (equally), giving consideration to Steele for that difference between the agreed value and its reduced portion of the existing debt as a net asset. Rice has been allocated one-half of the agreed value and has been assigned a portion of the existing debt equal to the value in the calculation.

The accompanying projection is for the year ending December 31, 2008. The projection presents management's proforma revenue and expense, existing debt service cost allocations, and proforma personnel requirements.

REVENUE AND EXPENSE ASSUMPTIONS

Currently, Steele has a contract with other third party counties for the rental of certain units on a guaranteed basis. There is assumed to be minor rental of units on a non-contractual basis ongoing during the term of this projection. The assumption contemplates that the guaranteed contract will be terminated and there will be no future revenue from that source. The detention center charges fees for work release program, PBT testing and booking. The detention center receives commissions from the sale of canteen items, phone cards and other miscellaneous items charged to inmates. Medical expenses other than customary comfort drugs are charged to the host county and are anticipated to equal the related expense.

**PROPOSED JOINT POWERS AGREEMENT FOR THE
STEELE COUNTY/RICE COUNTY DETENTION CENTER
SUMMARY OF SIGNIFICANT ASSUMPTIONS AND ACCOUNTING POLICIES
YEAR ENDING DECEMBER 31, 2008
(SEE ACCOUNTANTS' COMPILATION REPORT)**

REVENUE AND EXPENSE ASSUMPTIONS (CONTINUED)

The personnel requirements have been projected based upon the operations of the facility. The breakdown of the personnel categories are administrative and program, supervisors and sergeants, control, middle pod, right pod, left pod, booking and intake, and office and transportation. Certain expense categories have been considered to be core or fixed. This means that those positions would be staffed principally no matter the size of the inmate population and would be allocated based upon the ownership percentage of the detention center. The programs that are considered to be core are administrative and program, supervisors and sergeants, control, booking and intake, and office and transportation. The cost centers that are considered variable based upon inmate population. These would be allocated based upon the inmate census per county. The variable cost centers are middle pod, right pod and left pod.

There has been a significant increase projected in the staffing needed for the transport of inmates between the Detention Center and the Courts, prisons, and other jurisdictions. Transport from the point of arrest to the Detention Center would remain the responsibility of the arresting officer. This approximate increase is assumed to be approximately \$275,000 in wages plus benefits of \$135,000, totaling \$410,000. This cost has been treated as a core fixed cost for allocation purposes.

ANNUAL DEBT SERVICE

The assumed value/historical cost of the detention center have been assumed to be \$13,300,000. The existing debt on the outstanding bonds on January 1, 2008 has been assumed to be \$11,280,000. The value/historical cost has been allocated equally between Rice and Steele. The portion of debt allocated to Rice is equal to its share of the value/historical cost i.e. \$6,650,000. That amount as a proportion of the remaining debt is 59 percent ($\$6,650,000 \div \$11,280,000$). That percentage has been used to allocate the debt service in the projection.

The cost of future additional construction debt service has been presented using various scenarios such as divided equally between the two owners, ratio of population and ratio of assumed inmate population. The scenario is presented for analytic purposes and is dependent upon the additional cost of construction debt and the assumption of the allocation method.

INMATE POPULATION

The allocation of projected revenue and expense has been assumed to be allocated based upon the fixed ratio for core items and variable for the occupancy items related to the three inmate pods. The inmate population between Steele and Rice counties historically has been approximately equal. The capacity of the detention center is currently 160 inmates. Per Minnesota Department of Correction guidelines, a consistent operating occupancy percentage of 85 percent is an upper threshold. The inmate capacity used in these projections has been set at 85 percent.

Proposed Joint Powers Agreement for the Detention Center Steele & Rice Counties

Projected Revenues & Expenses and Supplementary Information

Staff Cost Allocations	
Administrative & Program	Core
Supervisors & Sargeants	Core
Control	Core
Middle Pod	Variable
Right Pod	Variable
Left Pod	Variable
Booking & Intake	Core
Records & Transportation	Core

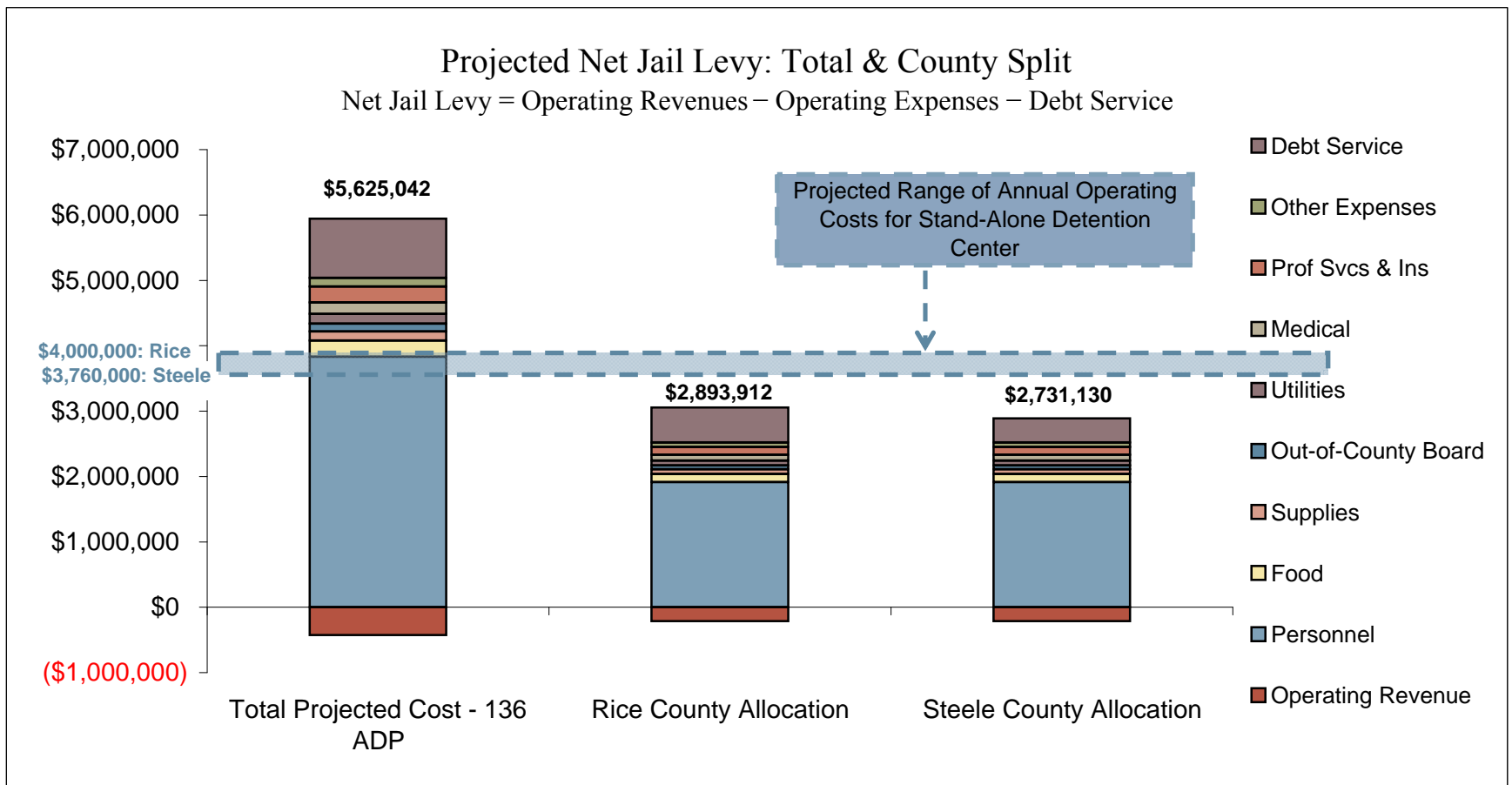
Other Cost Allocations	
Food	Variable
Supplies	Variable
Out-of-County Board	Core
Utilities	Core
Medical	Inmate-Specific
Prof Svcs & Ins	Core
Other Expenses	Variable
Building & Equipment	Core

Core / Variable Allocations:	
Core	= 50 / 50
Variable	= ADP

Inmate Population Mix		
Rice County	68	50%
Steele County	68	50%
Total	136	100%

Capacity	
Beds Available	160
ADP	136
Utilization (%)	85%

	Total Cost		=	Rice County		+	Steele County	
	Total Projected	Per ADP of 136		Allocation	Per ADP of 68		Allocation	Per ADP of 68
Revenues								
Core	\$ 125,400	\$ 3		\$ 62,700	\$ 3		\$ 62,700	\$ 3
Variable	299,600	6		149,800	6		149,800	6
Total Revenues	\$ 425,000	\$ 9		\$ 212,500	\$ 9		\$ 212,500	\$ 9
Expenses								
Personnel	\$ 3,830,327	\$ 77		\$ 1,915,163	\$ 77		\$ 1,915,163	\$ 77
Food	248,115	5		124,058	5		124,058	5
Supplies	140,300	3		70,150	3		70,150	3
Out-of-County Board	120,000	2		60,000	2		60,000	2
Utilities	147,500	3		73,750	3		73,750	3
Medical	173,700	3		86,850	3		86,850	3
Prof Services & Insurance	243,000	5		121,500	5		121,500	5
Other Expenses	132,000	3		66,000	3		66,000	3
Building & Equipment	106,100	2		53,050	2		53,050	2
Total Operating Expenses	\$ 5,141,042	\$ 104		\$ 2,570,521	\$ 104		\$ 2,570,521	\$ 104
Net Surplus / (Deficit)	\$ (4,716,042)	\$ (95)		\$ (2,358,021)	\$ (95)		\$ (2,358,021)	\$ (95)
Debt Service*	\$ (909,000)	\$ (18)		\$ (535,891)	\$ (22)		\$ (373,109)	\$ (15)
Net Jail Levy	\$ (5,625,042)	\$ (113)		\$ (2,893,912)	\$ (117)		\$ (2,731,130)	\$ (110)



See accompanying accountants' compilation report and summary of significant assumptions.