

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

---

**TODD-WADENA COMMUNITY CORRECTIONS**  
**LONG PRAIRIE, MINNESOTA**

**FOR THE YEAR ENDED DECEMBER 31, 2004**

## **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.

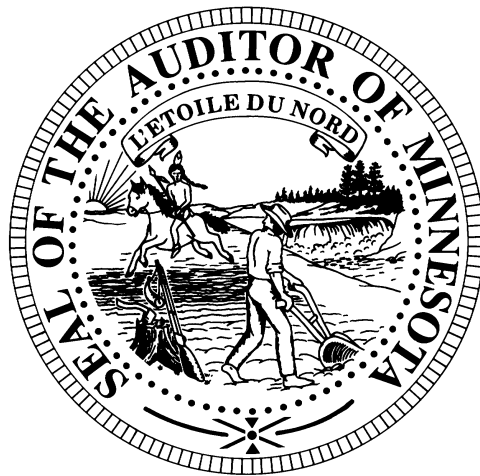
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

**TODD-WADENA COMMUNITY  
CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

**For the Year Ended December 31, 2004**



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

This page was left blank intentionally.

**TODD-WADENA COMMUNITY CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
<b>Introductory Section</b>		
Organization Schedule		1
<b>Financial Section</b>		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Governmental Activities Statement of Net Assets and Governmental Fund Balance Sheet	Exhibit 1	9
Governmental Activities Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance	Exhibit 2	10
Budgetary Comparison Statement - General Fund	Exhibit 3	11
Notes to the Financial Statements		12
<b>Management and Compliance Section</b>		
Schedule of Findings and Recommendations		24
Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance		26

This page was left blank intentionally.



This page was left blank intentionally.



**TODD-WADENA COMMUNITY CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

**ORGANIZATION SCHEDULE  
2004**

	<u>Position</u>	<u>County</u>
<b>Joint Powers Board</b>		
Stan Sumey		Todd County
Dean Meiners		Todd County
Gerald Ruda		Todd County
Janet Goligowski		Todd County
Ken Sorenson		Todd County
Lane Waldahl		Wadena County
Orville Meyer		Wadena County
Bill Stearns		Wadena County
Mary Harrison		Wadena County
David Mattila		Wadena County
<b>Executive Committee</b>		
Ken Sorenson		Todd County
Stan Sumey	Chair	Todd County
Orville Meyer		Wadena County
Lane Waldahl	Vice Chair	Wadena County
Honorable Sally I. Robertson		Todd and Wadena Counties
H. Michael Carr		Wadena County
Gregory Peters		Todd County
<b>Community Corrections Advisory Board</b>		
Arvid Edeburn	Citizen Member	
Connie Nelson	Citizen Member	
Eliazar Estrada	Citizen Member	
Susan Majors	Citizen Member	
Ken Sorenson	Todd County Commissioner	
Stan Sumey	Todd County Commissioner	
Honorable Sally I. Robertson	District Court Judge	
Jane Gustafson	Prosecuting Attorney	
Gregory Peters	Public Defender	
Kyle Huber	Police Chief	
H. Michael Carr	Sheriff	
Cheryl Schneider	Health Professional	
Frank Sandelin	Welfare Director	
Jim Hofer	Educational Administrator	
Katherine Langer	Correctional Administrator	
Orville Meyer	Wadena County Commissioner	
Susan Ebeling	Senior Corrections Agent	
Lane Waldahl	Wadena County Commissioner	

This page was left blank intentionally.



This page was left blank intentionally.



PATRICIA ANDERSON  
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

Joint Powers Board  
Todd-Wadena Community Corrections

We have audited the accompanying financial statements of the governmental activities and the General Fund of Todd-Wadena Community Corrections (TWCC) as of and for the year ended December 31, 2004, which collectively comprise TWCC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of TWCC's 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 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 respective financial position of the governmental activities and the General Fund of TWCC as of December 31, 2004, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, TWCC adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis, listed in the table of contents, 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.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: November 17, 2005

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This page was left blank intentionally.



**TODD-WADENA COMMUNITY CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

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

This section of the annual financial report presents our discussion and analysis of the financial performance during the fiscal year ended December 31, 2004. The Management's Discussion and Analysis (MD&A) is a new element of required supplementary information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, issued in June 1999. Certain comparative information between the current year, 2004, and the prior year, 2003, is required to be presented in the MD&A. However, since this is the first year of implementation of the new reporting model contained in GASB Statement 34, and that Statement permits the omission of prior year data in the year of implementation, the Todd-Wadena Community Corrections (TWCC) has elected not to prepare comparative data due to the cost of adjusting prior year's financial statements to the new reporting model.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for 2004 include the following:

- Overall fund-level revenues totaled \$1,247,779 and were \$46,243 less than expenditures.
- The General Fund's balance decreased \$46,243 from the prior year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of three parts--Independent Auditor's Report, required supplementary information, which includes the Management's Discussion and Analysis (this section), and the basic financial statements. The basic financial statements include the statement of net assets and governmental fund balance sheet and the statement of activities and governmental fund revenues, expenditures, and changes in fund balance.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Table A-1 summarizes the major features of TWCC’s financial statements, including the portion of TWCC’s activities they cover and the types of information they contain. The remainder of this overview section of the MD&A highlights the structure and content of each of the statements.

**Table A-1  
Major Features of TWCC’s  
Government-Wide and Fund Financial Statements**

Type of Statements	Government-Wide	Governmental Fund
Scope	Entire government	The General Fund
Required financial statements	Statement of net assets and statement of activities	Balance sheet and statement of revenues, expenditures, and changes in fund balance
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included
Type of inflow/outflow information	All revenues and expenses during year	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter

**Government-Wide and Fund Financial Statements**

The financial statements included in this report combine the governmental fund and government-wide activities into two statements.

The governmental, or General Fund activity includes TWCC’s basic services, which generally focus on (1) how cash and other financial assets can readily be converted to cash, and (2) the balances left at year-end available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance TWCC’s programs.

The government-wide statements report information about TWCC as a whole using accounting methods similar to those used by private-sector companies. These statements include all of the assets and liabilities of TWCC including long-term activity. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

## FINANCIAL ANALYSIS OF TWCC AS A WHOLE

Net Assets - TWCC's net assets were \$251,212 on December 31, 2004.

**Table A-2**  
**The TWCC's Net Assets**

	<u>2004</u>	<u>2003</u>	<u>Percent Change (%)</u>
<b>Assets</b>			
Current assets			
Cash and pooled investments	\$ 216,405	(1)	(1)
Petty cash and change funds	100	(1)	(1)
Due from other governments	94,363		
Noncurrent assets			
Depreciable capital assets, net	<u>174,496</u>	(1)	(1)
Total Assets	<u>\$ 485,364</u>		
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 9,555	(1)	(1)
Salaries payable	42,186	(1)	(1)
Contract for deed	16,010	(1)	(1)
Compensated absences	28,259	(1)	(1)
Noncurrent liabilities			
Contract for deed	25,105	(1)	(1)
Compensated absences	<u>113,037</u>	(1)	(1)
Total Liabilities	<u>\$ 234,152</u>		
Net assets invested in capital assets	\$ 174,496	(1)	(1)
Unrestricted	<u>76,716</u>	(1)	(1)
Total Net Assets	<u>\$ 251,212</u>		

- (1) TWCC did not restate its 2003 financial statements in this first year of implementation of GASB Statement 34. Comparative information will be provided in future years.

**Table A-3**  
**Change in Net Assets**  
**Governmental Activities for the Fiscal Year Ended December 31, 2004**

	2004	2003	Percent Change (%)
Revenues			
Intergovernmental	\$ 1,191,807	(1)	(1)
Charges for services	43,955	(1)	(1)
Miscellaneous	12,619	(1)	(1)
Total Revenues	<u>\$ 1,248,381</u>		
Expenses			
Public safety	\$ 1,247,771	(1)	(1)
Interest	3,570	(1)	(1)
Total Expenses	<u>\$ 1,251,341</u>		
Net Change in Net Assets	\$ (2,960)	(1)	(1)
Net Assets - January 1	<u>254,172</u>	(1)	(1)
Net Assets - December 31	<u>\$ 251,212</u>		

(1) TWCC did not restate its 2003 financial statements in this first year of implementation of GASB Statement 34. Comparative information will be provided in future years.

**FINANCIAL ANALYSIS OF TWCC AT THE FUND LEVEL**

The financial performance of TWCC as a whole is reflected in its governmental fund as well. The General Fund, which is the only governmental fund of TWCC, includes the primary operations of TWCC in providing development, implementation and operation of correctional programs, probation, and parole to the Counties of Todd and Wadena. As TWCC completed the year, the General Fund reported a fund balance of \$258,525.

The following table presents a comparative summary of General Fund revenues:

**Table A-4  
General Fund Revenues**

Function	Year Ended December 31		Change	
	2004	2003	Increase (Decrease)	Percent (%)
Intergovernmental	\$ 1,191,205	\$ 1,277,009	\$ (85,804)	(6.7)
Charges for services	43,955	-	43,955	100.0
Miscellaneous	12,619	99,954	(87,335)	(87.4)
<b>Total General Fund Revenues</b>	<b>\$ 1,247,779</b>	<b>\$ 1,376,963</b>	<b>\$ (129,184)</b>	<b>(9.4)</b>

The following table presents a summary of General Fund expenditures:

**Table A-5  
General Fund Expenditures**

Function	Year Ended December 31		Change	
	2004	2003	Increase (Decrease)	Percent (%)
Current				
Public safety	\$ 1,245,556	\$ 1,304,777	\$ (59,221)	(4.5)
Debt service				
Principal retirement	44,896	53,694	(8,798)	(16.4)
Interest	3,570	5,708	(2,138)	(37.5)
<b>Total General Fund Expenditures</b>	<b>\$ 1,294,022</b>	<b>\$ 1,364,179</b>	<b>\$ (70,157)</b>	<b>(5.1)</b>

## **FACTORS BEARING ON TWCC'S FUTURE**

The availability of continued grant funding is an on-going factor bearing on TWCC's financial future. Regarding revenues, the grant amounts and subsidy amount are expected to remain the same through June 2007. Regarding expenditures, it is anticipated that increased fuel costs will be a factor. TWCC may also see increased expenditures for its sex offender treatment program, due to increased therapist costs.

## **CONTACTING TWCC'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, and customers, with a general overview of TWCC's finances and to demonstrate TWCC's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact Katherine Langer, Director, at (320) 732-6165.

This page was left blank intentionally.

## **BASIC FINANCIAL STATEMENTS**

This page was left blank intentionally.



**TODD-WADENA COMMUNITY CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

**EXHIBIT 1**

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

	General Fund	Reconciliation	Governmental Activities
<b><u>Assets</u></b>			
<b>Current assets</b>			
Cash and investments	\$ 216,405	\$ -	\$ 216,405
Petty cash and change funds	100	-	100
Due from other governments	94,363	-	94,363
<b>Noncurrent assets</b>			
Depreciable capital assets - net	-	174,496	174,496
<b>Total Assets</b>	<b>\$ 310,868</b>	<b>\$ 174,496</b>	<b>\$ 485,364</b>
<b><u>Liabilities</u></b>			
<b>Current liabilities</b>			
Accounts payable	\$ 9,555	\$ -	\$ 9,555
Salaries payable	42,186	-	42,186
Deferred revenue - unavailable	602	(602)	-
Contract for deed	-	16,010	16,010
Compensated absences	-	28,259	28,259
<b>Noncurrent liabilities</b>			
Contract for deed	-	25,105	25,105
Compensated absences	-	113,037	113,037
<b>Total Liabilities</b>	<b>\$ 52,343</b>	<b>\$ 181,809</b>	<b>\$ 234,152</b>
<b><u>Fund Balance/Net Assets</u></b>			
<b>Fund Balance</b>			
Unreserved			
Undesignated	258,525	(258,525)	
<b>Total Liabilities and Fund Balance</b>	<b>\$ 310,868</b>		
<b>Net Assets</b>			
Invested in capital assets		\$ 174,496	\$ 174,496
Unrestricted		76,716	76,716
<b>Total Net Assets</b>		<b>\$ 251,212</b>	<b>\$ 251,212</b>
<b>Reconciliation of the Governmental Fund Balance to Net Assets</b>			
<b>Fund Balance - Governmental Fund</b>			\$ 258,525
Capital assets are reported on the Statement of Net Assets but not in the Balance Sheet			174,496
Deferred revenue - unavailable is recognized on the Statement of Net Assets but not in the Balance Sheet			602
Long-term liabilities are reported on the Statement of Net Assets but not in the Balance Sheet			(182,411)
<b>Net assets of governmental activities</b>			<b>\$ 251,212</b>

**TODD-WADENA COMMUNITY CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

*EXHIBIT 2*

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

	<b>General Fund</b>	<b>Reconciliation</b>	<b>Governmental Activities</b>
<b>Revenues</b>			
Intergovernmental revenue	\$ 1,191,205	\$ 602	\$ 1,191,807
Charges for services	43,955	-	43,955
Miscellaneous	12,619	-	12,619
	<b>\$ 1,247,779</b>	<b>\$ 602</b>	<b>\$ 1,248,381</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
Public safety	\$ 1,245,556	\$ 2,215	\$ 1,247,771
<b>Debt service</b>			
Principal retirement	44,896	(44,896)	-
Interest	3,570	-	3,570
	<b>\$ 1,294,022</b>	<b>\$ (42,681)</b>	<b>\$ 1,251,341</b>
<b>Net Change in Fund Balance/Net Assets</b>	<b>\$ (46,243)</b>	<b>\$ 43,283</b>	<b>\$ (2,960)</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>304,768</b>	<b>(50,596)</b>	<b>254,172</b>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 258,525</b>	<b>\$ (7,313)</b>	<b>\$ 251,212</b>

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

**Change in Fund Balance** **\$ (46,243)**

Under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues is the increase (decrease) in revenues deferred as unavailable.

602

Capital outlays are included in expenditures but depreciation is not. Expenses do not include capital outlays, but allocate the cost of capital assets over their useful lives as depreciation.

Capital outlay	20,508
Depreciation expense	(20,005)

Increases in compensated absences payable increase expenses but do not result in current financial uses and, therefore, are not reported in the fund operating statement.

(2,718)

Payments of loans payable reduce current financial resources, but do not affect changes in net assets

44,896

**Net Change in Net Assets** **\$ (2,960)**

**TODD-WADENA COMMUNITY CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

*EXHIBIT 3*

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental				
Federal				
Minnesota Department of Public Safety Juvenile Accountability Incentive Block Grant	\$ -	\$ 9,271	\$ 384	\$ (8,887)
State				
Minnesota Department of Corrections	921,099	922,130	905,885	(16,245)
Minnesota Department of Revenue	-	-	4,177	4,177
Minnesota Department of Employment and Economic Development	48,040	48,040	48,040	-
Local	320,399	320,399	232,719	(87,680)
Charges for services	-	-	43,955	43,955
Miscellaneous	-	-	12,619	12,619
<b>Total Revenues</b>	<b>\$ 1,289,538</b>	<b>\$ 1,299,840</b>	<b>\$ 1,247,779</b>	<b>\$ (52,061)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Public safety	\$ 1,299,840	\$ 1,299,840	\$ 1,245,556	\$ 54,284
<b>Debt service</b>				
Principal retirement	-	-	44,896	(44,896)
Interest	-	-	3,570	(3,570)
<b>Total Expenditures</b>	<b>\$ 1,299,840</b>	<b>\$ 1,299,840</b>	<b>\$ 1,294,022</b>	<b>\$ 5,818</b>
<b>Net Change in Fund Balance</b>	<b>\$ (10,302)</b>	<b>\$ -</b>	<b>\$ (46,243)</b>	<b>\$ (46,243)</b>
<b>Fund Balance - January 1</b>	<b>304,768</b>	<b>304,768</b>	<b>304,768</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 294,466</b>	<b>\$ 304,768</b>	<b>\$ 258,525</b>	<b>\$ (46,243)</b>

This page was left blank intentionally.

**TODD-WADENA COMMUNITY CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

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

---

---

1. Summary of Significant Accounting Policies

Todd-Wadena Community Corrections (TWCC) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. 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 TWCC 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 TWCC's overall financial position and results of operations and
- financial statements prepared using full accrual accounting for all of TWCC's activities.

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

A. Financial Reporting Entity

TWCC was established in 1976 by Todd and Wadena Counties, pursuant to Minn. Stat. ch. 401. TWCC's primary programs and services are to assist member counties in the development, implementation, and operation of correctional programs, probation, and parole.

The management of TWCC is vested in a Joint Powers Board, composed of the five Commissioners from each participating county. Neither county retains control over the operations or has oversight responsibility for TWCC.

**TODD-WADENA COMMUNITY CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

---

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

The Joint Powers Board appoints an executive committee, which has been delegated by the Joint Powers Board all powers and duties necessary for the day-to-day operations.

Todd County acts as a fiscal agent for TWCC. TWCC participates in two joint ventures described in Note 4.B.

B. Basic Financial Statements

The financial statements combine fund level financial statements (General Fund column) and government-wide financial statements (governmental activities column). These statements include the financial activities of TWCC overall.

The government-wide columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. TWCC's net assets are reported in two parts: invested in capital assets and unrestricted net assets.

TWCC reports one governmental fund. The General Fund is TWCC's primary operating fund. It accounts for all financial resources of TWCC.

C. Measurement Focus and Basis of Accounting

The governmental activities columns are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund columns (General Fund) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. TWCC considers all revenues to be available if collected within 60 days after the end of the current period. Intergovernmental revenue and interest is considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred. When both restricted and unrestricted resources are available for use, it is TWCC's policy to use restricted resources first, and then unrestricted resources as they are needed.

**TODD-WADENA COMMUNITY CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets or Equity

1. Cash Deposits

Cash is on deposit with Todd County.

2. Due From Other Governments

Due from other governments are grant-related receivables.

3. Capital Assets

Capital assets, which consist of buildings, equipment, and automobiles, are reported in the governmental activities column in the government-wide financial statements. Capital assets are recorded at historical cost. Capital assets are recorded as expenditures at the time of purchase. 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.

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.

Capital assets of TWCC are depreciated using the straight-line method over the estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and building improvements	40
Equipment	5
Automobiles (vehicles)	5

4. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation 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 pay and other employees who are

**TODD-WADENA COMMUNITY CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities and Net Assets or Equity

4. Compensated Absences (Continued)

expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the governmental activities.

5. Deferred Revenues

TWCC's fund and government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

6. Fund Equity

In the fund financial statements, governmental funds 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 subject to change.

7. Budgetary Information

Budgets are adopted on a basis consistent with generally accepted accounting principles. The Joint Powers Board adopts estimated revenue and expenditure budgets for the General Fund.

The budgets may be amended or modified at any time by the Joint Powers Board. Comparisons of the estimated revenues and expenditures to actual are presented in the financial statements.

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



**TODD-WADENA COMMUNITY CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities and Net Assets or Equity

8. Use of Estimates (Continued)

and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. Detailed Notes on All Funds

A. Assets

Cash and Investments

Minn. Stat. ch. 118A authorizes TWCC to designate a depository for public funds and to invest in certificates of deposit. Minnesota statutes require that all deposits be covered by insurance, surety bond, or collateral.

TWCC's deposits are part of a pool held by Todd County. TWCC had no investments at December 31, 2004.

Receivables

Amounts due from other governments as of December 31, 2004, are:

Federal	\$ 602
State	<u>93,761</u>
Total	<u>\$ 94,363</u>

TWCC did not have any receivables scheduled to be collected beyond one year as of December 31, 2004.

**TODD-WADENA COMMUNITY CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings	\$ 160,151	\$ -	\$ -	\$ 160,151
Office equipment	52,572	-	-	52,572
Automotive	94,332	20,508	-	114,840
	<u>\$ 307,055</u>	<u>\$ 20,508</u>	<u>\$ -</u>	<u>\$ 327,563</u>
Less: accumulated depreciation for				
Buildings	\$ 18,737	\$ 4,004	\$ -	\$ 22,741
Office equipment	37,231	5,553	-	42,784
Automotive	77,094	10,448	-	87,542
	<u>\$ 133,062</u>	<u>\$ 20,005</u>	<u>\$ -</u>	<u>\$ 153,067</u>
Total capital assets depreciated	<u>\$ 173,993</u>	<u>\$ 503</u>	<u>\$ -</u>	<u>\$ 174,496</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 173,993</u>	<u>\$ 503</u>	<u>\$ -</u>	<u>\$ 174,496</u>

Depreciation expense of \$20,005 was charged to the TWCC's public safety function.

B. Liabilities

1. Deferred Revenue

There was \$602 in unavailable deferred revenue as of December 31, 2004.

2. Employee Benefits

Employees are granted vacation in varying amounts based on their length of service. Vacation leave accrual varies from 12 to 24 days per year. Sick leave accrual is 12 days per year. TWCC pays unused accumulated vacation to employees upon termination. Unused accumulated vacation is accrued as

**TODD-WADENA COMMUNITY CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

2. Detailed Notes on All Funds

B. Liabilities

2. Employee Benefits (Continued)

compensated absences. Sick leave, valued at \$209,760 at December 31, 2004, is available to employees in the event of illness-related absences, of which 40 percent is paid upon separation.

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
Contracts for Deed					
2002 Contract for Deed	08/15/08	\$750	6.00	\$ 55,000	\$ 20,710
2003 Contract for Deed	05/15/08	\$750	5.75	37,370	20,405
Total Contracts for Deed				<u>\$ 92,370</u>	<u>\$ 41,115</u>

4. Debt Service Requirements

Debt payments are made from the Sentenced to Serve Account and the Sex Offender Program Account. Debt service requirements at December 31, 2004, were as follows:

Year Ending December 31	Contracts For Deed	
	Principal	Interest
2005	\$ 16,010	\$ 1,989
2006	16,977	1,023
2007	8,128	132
Total	<u>\$ 41,115</u>	<u>\$ 3,144</u>

**TODD-WADENA COMMUNITY CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

2. Detailed Notes on All Funds

B. Liabilities (Continued)

5. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Contracts for deed	\$ 69,625	\$ -	\$ 28,510	\$ 41,115	\$ 16,010
Compensated absences	138,578	2,718	-	141,296	28,259
Loans payable	16,386	-	16,386	-	-
Long-Term Liabilities	<u>\$ 224,589</u>	<u>\$ 2,718</u>	<u>\$ 44,896</u>	<u>\$ 182,411</u>	<u>\$ 44,269</u>

3. Employee Retirement Systems and Pension Plans

A. Plan Description

All full-time and certain part-time employees of TWCC 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.

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

**TODD-WADENA COMMUNITY CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

---

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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 web at [mnpera.org](http://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. TWCC 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. TWCC is required to contribute the following percentages of annual covered payroll:

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

**TODD-WADENA COMMUNITY CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

---

3. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

TWCC's contributions for the years ending December 31, 2004, 2003, and 2002, were \$38,567, \$43,343, and \$40,412, respectively, equal to the contractually required contributions for each year as set by state statute.

4. Summary of Significant Contingencies and Other Items

A. Risk Management

TWCC 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. TWCC has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT) to protect against liabilities from workers' compensation and property and casualty. TWCC purchases commercial insurance for other risks of loss. There were no significant reductions in insurance from the prior year or settlements in excess of insurance coverage for any of the past three years.

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 MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess TWCC in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and TWCC pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess TWCC in a method and amount to be determined by MCIT.

**TODD-WADENA COMMUNITY CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

---

---

4. Summary of Significant Contingencies and Other Items (Continued)

B. Joint Ventures

Wadena County Family Service Collaborative

The Wadena County Family Service Collaborative (Collaborative) was established in 1998 under the authority of the Joint Powers Act, pursuant to Minn. Stat. §§ 471.59 and 124D.23. The Collaborative includes Wadena County; Independent School District Nos. 818, 820, 821, 2155, and 2170; Otter Tail-Wadena Community Action Council; and TWCC. The purpose of the Collaborative is to provide coordinated family services and to commit resources to an integrated fund.

Control of the Collaborative is vested in a governing board. TWCC has one member on the Board.

In the event of a withdrawal from the Collaborative the withdrawing party shall give a 180-day notice. The withdrawing party shall remain liable for fiscal obligations incurred prior to the effective date of withdrawal, but shall incur no additional fiscal liability beyond the effective date of withdrawal. Upon termination of the Collaborative, all property and remaining funds shall be divided among the remaining members. Distribution shall be determined on the basis of number of years of participation by each member and the proportionate contribution paid pursuant to the agreement of the Collaborative members.

Financing is provided by state grants and appropriations from its members. Wadena County, in an agent capacity, reports the cash transactions of the Collaborative as an investment trust fund on the County's financial statements. During 2004, TWCC contributed \$500 to the Collaborative.

Todd County Family Service Collaborative

The Todd County Family Service Collaborative (Collaborative) was established in 1998 under the authority of the Joint Powers Act, pursuant to Minn. Stat. §§ 471.59 and 124D.23. The Collaborative includes Todd County; Independent School District Nos. 786, 787, 2170, 2753, and 2759; Freshwater Education District; Tri-County Community Action Program; Rural Minnesota SEP; TWCC, and Northern Pines Mental Health Center. The purpose of the Collaborative is to provide coordinated family services and to commit resources to an integrated fund.

**TODD-WADENA COMMUNITY CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

---

4. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Todd County Family Service Collaborative (Continued)

Control of the Collaborative is vested in a Board of Directors. TWCC has one member on the Board.

In the event of a withdrawal from the Collaborative, the withdrawing party shall give a 90-day notice. The withdrawing party shall not be entitled to any compensation as long as the Collaborative continues its existence. Should the Collaborative cease to exist, all property, real and personal, held by the Joint Powers Board at the time of termination shall be distributed by resolution of the Board in accordance with law and in a manner to best accomplish the continuing purposes of the Collaborative.

Financing is provided by state grants and appropriations from its members. The Freshwater Education District in Staples is the fiscal agent for the Collaborative. During 2004, TWCC did not contribute any funds to the Collaborative.





This page was left blank intentionally.

**TODD-WADENA COMMUNITY CORRECTIONS  
LONG PRAIRIE, MINNESOTA**

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

**I. FINANCIAL STATEMENT AUDIT--INTERNAL CONTROL**

**PREVIOUSLY REPORTED ITEM NOT RESOLVED**

96-1 Segregation of Duties

Due to the limited number of office personnel within Todd-Wadena Community Corrections' offices, segregation of accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the Community Corrections; however, the Community Corrections' management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Examples of incompatible duties that should be performed by separate individuals are:

- receipting collections, posting collections to registers, and making deposits with Todd County; and
- data entry and reviewing the monthly detailed report of receipts and disbursements for accuracy.

We recommend that the Community Corrections' Executive Committee continue to be aware of the problem and develop oversight procedures to ensure adequate controls over cash and other items.

**Client's Response:**

*Regarding segregation of duties, as we have responded in the past, due to the limited number of office personnel within our agency, segregation of accounting functions necessary to ensure adequate internal accounting controls is very difficult. It is our understanding that in smaller operations such as ours, this situation is not unusual. We continue to do our best to segregate duties such as when funds are received from an offender in any of our offices, the staff person receiving the money provides the offender with a receipt and forwards the money to our business office in Long Prairie. The money*

*is again receipted and placed in the Community Corrections bank account. At the end of the month, the total receipts are forwarded to the Todd County Auditor's Office. The Auditor's Office provides a copy of the month's receipts to the Administrative Assistant in the Long Prairie office who then forwards a copy to the secretaries in all the offices. The Executive Committee of Todd-Wadena Community Corrections continues to be made aware of this finding and is aware of the methods we use to address the finding. Beginning in the fall of 2000, we took a further step in addressing the finding by having the Community Corrections Director review the monthly detailed reports of receipts and disbursements.*

*Also, effective October 4, 2001, we took another step in addressing the finding by requiring that any form of money being collected by anyone in our agency will be documented through a triplicate receipt. This will allow for person(s) paying the money to have a receipt of the transaction, the person collecting to have a receipt, and for every check or money order being forwarded to the Office Manager to be accompanied by a receipt.*

*Also, we use numbered receipts only for all our transactions requiring receipts.*



# 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)

PATRICIA ANDERSON  
STATE AUDITOR

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE**

Joint Powers Board  
Todd-Wadena Community Corrections

We have audited the financial statements of the governmental activities and the General Fund of Todd-Wadena Community Corrections as of and for the year ended December 31, 2004, and have issued our report thereon dated November 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

### Internal Control Over Financial Reporting

The management of Todd-Wadena Community Corrections is responsible for establishing and maintaining internal control. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered Todd-Wadena Community Corrections' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal

control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Community Corrections' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 96-1.

A material weakness is a reportable 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

#### 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 five main 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.

The results of our tests indicate that, for the items tested, Todd-Wadena 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 Joint Powers Board 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: November 17, 2005