

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

TODD-WADENA COMMUNITY CORRECTIONS
LONG PRAIRIE, MINNESOTA

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 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.

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

For the Years Ended December 31, 2009 and 2010



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

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

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

**ORGANIZATION SCHEDULE
2010**

	Position	County
Joint Powers Board		
Randy Neumann		Todd County
Gary Kneisel		Todd County
Gerald Ruda		Todd County
David Kircher		Todd County
Mark Blessing		Todd County
Lane Waldahl		Wadena County
Rodney Bounds		Wadena County
Bill Stearns		Wadena County
Ralph Miller		Wadena County
David Schermerhorn		Wadena County
Executive Committee		
David Kircher	Vice Chair	Todd County
Mark Blessing		Todd County
David Schermerhorn		Wadena County
Lane Waldahl	Chair	Wadena County
Honorable Sally I. Robertson		Todd and Wadena Counties
James Hofer		Wadena County
Jane Gustafson		Todd County
Community Corrections Advisory Board		
Naomi Moyer	Citizen Member	
Connie Nelson	Victim Services	
Nora Carrillo-de Montanez	Ethnic Minorities	
Mark Hepokoski	Citizen Member	
David Kircher	Todd County Commissioner	
Mark Blessing	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, Jr.	Wadena County Sheriff	
Pete Mikkelson	Todd County Sheriff	
Cheryl Schneider	Health Professional	
Frank Sandelin	Social Services Director	
James Hofer	Educational Administrator	
Katherine Langer	Correctional Administrator	
David Schermerhorn	Wadena County Commissioner	
Lane Waldahl	Wadena County Commissioner	
Johanna Jones	Senior Corrections Agent	

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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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 years ended December 31, 2009 and 2010, 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, 2009 and 2010, and the respective changes in financial position thereof and the respective budgetary comparisons for the General Fund for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational,

economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 24, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009 AND 2010
(Unaudited)**

As management of Todd-Wadena Community Corrections (TWCC), we offer the readers of the financial statements this narrative overview and analysis of its financial activities for the fiscal years ended December 31, 2009 and 2010. 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 HIGHLIGHTS

- In 2009, assets exceeded liabilities by \$514,958 (Exhibit 1), of which \$161,615 is invested in capital assets, leaving unrestricted net assets of \$353,343.
- In 2010, assets exceeded liabilities by \$635,969 (Exhibit 4), of which \$146,017 is invested in capital assets, leaving unrestricted net assets of \$489,952.
- Total net assets increased from \$514,958 in 2009 to \$635,969 in 2010, an increase of \$121,011, or 23.5 percent.

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. TWCC's basic financial statements consist of two statements that combine government-wide financial statements and fund financial statements, a budgetary comparison schedule for the General Fund, 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.

Fund financial statements. 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 the modified accrual basis of 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.

Government-wide financial statements. 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 TWCC 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.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of financial position. TWCC's assets exceeded liabilities by \$514,958 and \$635,969 at December 31, 2009 and 2010, respectively. The largest portion of TWCC's net assets reflects current assets.

	Net Assets		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets			
Current and other assets	\$ 700,486	\$ 589,048	\$ 454,020
Capital assets	<u>146,017</u>	<u>161,615</u>	<u>165,837</u>
Total Assets	<u>\$ 846,503</u>	<u>\$ 750,663</u>	<u>\$ 619,857</u>
Liabilities			
Current liabilities	\$ 80,792	\$ 96,184	\$ 73,560
Noncurrent liabilities	<u>129,742</u>	<u>139,521</u>	<u>123,695</u>
Total Liabilities	<u>\$ 210,534</u>	<u>\$ 235,705</u>	<u>\$ 197,255</u>
Net Assets			
Invested in capital assets	\$ 146,017	\$ 161,615	\$ 165,837
Unrestricted	<u>489,952</u>	<u>353,343</u>	<u>256,765</u>
Total Net Assets	<u>\$ 635,969</u>	<u>\$ 514,958</u>	<u>\$ 422,602</u>

Governmental Activities

TWCC's activities during 2009 increased net assets by \$92,356, or 21.9 percent. In 2010, net assets increased by \$121,011, or 23.5 percent. Key elements in these increases in net assets are as follows:

	Changes in Net Assets		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues			
Intergovernmental	\$ 1,453,275	\$ 1,532,712	\$ 1,494,637
Charges for services	67,245	72,214	71,114
Miscellaneous	<u>13,850</u>	<u>18,711</u>	<u>21,508</u>
Total Revenues	\$ 1,534,370	\$ 1,623,637	\$ 1,587,259
Expenses			
Public safety	<u>1,413,359</u>	<u>1,531,281</u>	<u>1,428,545</u>
Net Change in Net Assets	\$ 121,011	\$ 92,356	\$ 158,714
Net Assets - January 1	<u>514,958</u>	<u>422,602</u>	<u>263,888</u>
Net Assets - December 31	<u>\$ 635,969</u>	<u>\$ 514,958</u>	<u>\$ 422,602</u>

FINANCIAL ANALYSIS OF TWCC AT THE FUND LEVEL

Governmental Fund

The General Fund, the only governmental fund of TWCC, accounts for the primary operations of TWCC, which provides development, implementation, and operation of correctional programs, probation, and parole to Todd and Wadena Counties. TWCC's General Fund reported a fund balance of \$527,744 and \$652,129 at December 31, 2009 and 2010, respectively.

Revenues for TWCC's General Fund increased by \$86,481 from 2008 to 2009, while total expenditures increased by \$73,220 during the same period. For 2009 to 2010, revenues for TWCC's General Fund decreased by \$117,777, while total expenditures decreased by \$97,292.

As shown in the Statement of Revenues, Expenditures, and Changes in Fund Balance (Exhibit 2) for 2009, intergovernmental revenue totaled \$1,561,222, or 94.5 percent, of total revenues. For 2010, intergovernmental revenue totaled \$1,453,275 (Exhibit 5), a decrease of \$107,947 over 2009, and accounted for 94.7 percent of total revenues.

General Fund Budgetary Highlights

TWCC's expenditure budgets, in comparison with the prior year, decreased by \$49,278 in 2009 and decreased by \$60,896 in 2010. These changes were offset by corresponding changes in budgeted revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

TWCC's depreciable capital assets (net of accumulated depreciation) at December 31, 2009, totaled \$161,615, a decrease of \$4,222, or 2.5 percent, from 2008. In 2010, depreciable capital assets, net of accumulated depreciation, decreased by \$15,598, or 9.7 percent, to \$146,017 at year-end. The investment in capital assets includes buildings, office furniture and equipment, and automobiles.

Long-Term Debt

TWCC had no outstanding debt during 2009 or 2010.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

TWCC adopted the 2011 budget based on the Minnesota Department of Corrections - Community Corrections Act Subsidy application.

FACTORS BEARING ON TWCC'S FUTURE

The availability of continued grant funding is an ongoing factor bearing on TWCC's financial future. Regarding revenues, the grant amounts and subsidy amount are expected to reduce some through June 2012. Regarding expenditures, it is anticipated that increased fuel costs will be a factor.

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.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT 1

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS
DECEMBER 31, 2009**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 459,424	\$ -	\$ 459,424
Petty cash and change funds	100	-	100
Due from other governments	129,524	-	129,524
Noncurrent assets			
Depreciable capital assets - net	-	161,615	161,615
Total Assets	\$ 589,048	\$ 161,615	\$ 750,663
 <u>Liabilities and Fund Balance/Net Assets</u>			
Current liabilities			
Accounts payable	\$ 9,134	\$ -	\$ 9,134
Salaries payable	52,170	-	52,170
Compensated absences	-	34,880	34,880
Noncurrent liabilities			
Compensated absences	-	139,521	139,521
Total Liabilities	\$ 61,304	\$ 174,401	\$ 235,705
Fund Balance			
Unreserved			
Undesignated	527,744	\$ (527,744)	
Net Assets			
Invested in capital assets		\$ 161,615	\$ 161,615
Unrestricted		353,343	353,343
Total Net Assets		\$ 514,958	\$ 514,958
Total Liabilities and Fund Balance/Net Assets	\$ 589,048	\$ 161,615	\$ 750,663

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

***EXHIBIT 1
(Continued)***

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS
DECEMBER 31, 2009**

Reconciliation of the Governmental Fund Balance to Net Assets	
Fund Balance - General Fund	\$ 527,744
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.	161,615
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund.	(174,401)
Net Assets - Governmental Activities	<u>\$ 514,958</u>

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

EXHIBIT 2

**GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	General Fund	Reconciliation	Governmental Activities
Revenues			
Intergovernmental	\$ 1,561,222	\$ (28,510)	\$ 1,532,712
Charges for services	72,214	-	72,214
Miscellaneous	18,711	-	18,711
Total Revenues	\$ 1,652,147	\$ (28,510)	\$ 1,623,637
Expenditures/Expenses			
Current			
Public safety	1,507,277	24,004	1,531,281
Net Change in Fund Balance/Net Assets	\$ 144,870	\$ (52,514)	\$ 92,356
Fund Balance/Net Assets - January 1	382,874	39,728	422,602
Fund Balance/Net Assets - December 31	\$ 527,744	\$ (12,786)	\$ 514,958

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

Net Change in Fund Balance **\$ 144,870**

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

Deferred revenue - unavailable - current year	\$ -	
Deferred revenue - unavailable - prior year	(28,510)	(28,510)

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 asset expenditures	\$ 12,567	
Current year depreciation	(16,789)	(4,222)

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. An adjustment was made to expenditures/expenses for the change in compensated absences.

(19,782)

Change in Net Assets of Governmental Activities **\$ 92,356**

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

EXHIBIT 3

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental				
State				
Minnesota Department of Corrections	\$ 986,991	\$ 986,991	\$ 997,500	\$ 10,509
Minnesota Department of Revenue	-	-	4,177	4,177
Minnesota Department of Public Safety	83,202	83,202	104,002	20,800
Local	525,845	525,845	455,543	(70,302)
Charges for services	-	-	72,214	72,214
Miscellaneous	-	-	18,711	18,711
Total Revenues	\$ 1,596,038	\$ 1,596,038	\$ 1,652,147	\$ 56,109
Expenditures				
Current				
Public safety	1,488,706	1,488,706	1,507,277	(18,571)
Net Change in Fund Balance	\$ 107,332	\$ 107,332	\$ 144,870	\$ 37,538
Fund Balance - January 1	382,874	382,874	382,874	-
Fund Balance - December 31	\$ 490,206	\$ 490,206	\$ 527,744	\$ 37,538

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

EXHIBIT 4

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 574,416	\$ -	\$ 574,416
Petty cash and change funds	100	-	100
Due from other governments	125,970	-	125,970
Noncurrent assets			
Depreciable capital assets - net	-	146,017	146,017
Total Assets	\$ 700,486	\$ 146,017	\$ 846,503
 <u>Liabilities and Fund Balance/Net Assets</u>			
Current liabilities			
Accounts payable	\$ 9,359	\$ -	\$ 9,359
Salaries payable	38,998	-	38,998
Compensated absences	-	32,435	32,435
Noncurrent liabilities			
Compensated absences	-	129,742	129,742
Total Liabilities	\$ 48,357	\$ 162,177	\$ 210,534
Fund Balance			
Unreserved			
Undesignated	652,129	\$ (652,129)	
Net Assets			
Invested in capital assets		\$ 146,017	\$ 146,017
Unrestricted		489,952	489,952
Total Net Assets		\$ 635,969	\$ 635,969
Total Liabilities and Fund Balance/Net Assets	\$ 700,486	\$ 146,017	\$ 846,503

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

***EXHIBIT 4
(Continued)***

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

Reconciliation of the Governmental Fund Balance to Net Assets	
Fund Balance - General Fund	\$ 652,129
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.	146,017
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund.	(162,177)
Net Assets - Governmental Activities	<u>\$ 635,969</u>

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

EXHIBIT 5

**GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	General Fund	Reconciliation	Governmental Activities
Revenues			
Intergovernmental	\$ 1,453,275	\$ -	\$ 1,453,275
Charges for services	67,245	-	67,245
Miscellaneous	13,850	-	13,850
Total Revenues	\$ 1,534,370	\$ -	\$ 1,534,370
Expenditures/Expenses			
Current			
Public safety	1,409,985	3,374	1,413,359
Net Change in Fund Balance/Net Assets	\$ 124,385	\$ (3,374)	\$ 121,011
Fund Balance/Net Assets - January 1	527,744	(12,786)	514,958
Fund Balance/Net Assets - December 31	\$ 652,129	\$ (16,160)	\$ 635,969
 Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Governmental Activities Statement of Activities			
Net Change in Fund Balance			\$ 124,385
 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.			
Current year depreciation			(15,598)
 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. An adjustment was made to expenditures/expenses for the change in compensated absences.			
			12,224
Change in Net Assets of Governmental Activities			\$ 121,011

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

EXHIBIT 6

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental				
State				
Minnesota Department of Corrections	\$ 930,169	\$ 930,169	\$ 899,494	\$ (30,675)
Minnesota Department of Revenue	-	-	4,177	4,177
Minnesota Department of Public Safety	82,030	82,030	82,030	-
Local	590,740	590,740	467,574	(123,166)
Charges for services	-	-	67,245	67,245
Miscellaneous	-	-	13,850	13,850
Total Revenues	\$ 1,602,939	\$ 1,602,939	\$ 1,534,370	\$ (68,569)
Expenditures				
Current				
Public safety	1,427,810	1,427,810	1,409,985	17,825
Net Change in Fund Balance	\$ 175,129	\$ 175,129	\$ 124,385	\$ (50,744)
Fund Balance - January 1	527,744	527,744	527,744	-
Fund Balance - December 31	\$ 702,873	\$ 702,873	\$ 652,129	\$ (50,744)

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010**

1. Summary of Significant Accounting Policies

Todd-Wadena Community Correction's (TWCC) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the years ended December 31, 2009 and 2010. 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.

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. 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 fiscal agent for TWCC. TWCC participates in two joint ventures described in Note 5.B.

B. Basic Financial Statements

Exhibits 1, 2, 4, and 5 combine fund level financial statements (General Fund column) and government-wide financial statements (governmental activities column). These statements include the overall financial activities of TWCC.

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

The governmental activities columns are reported on a full accrual, economic resources 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 and accounts for all financial resources of TWCC.

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. TWCC considers all revenues as available if collected within 60 days after the end of the current period. Intergovernmental revenue and interest is considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and compensated absences, 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 TWCC's policy to use restricted resources first and then unrestricted resources as needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash Deposits

Cash is on deposit with Todd County.

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

1. Summary of Significant Accounting Policies

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

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 with an initial cost of \$2,500 or more and an estimated useful life in excess of one year, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are recorded at historical cost.

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. Deferred Revenue

The governmental fund reports deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

5. 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 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.

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

1. Summary of Significant Accounting Policies

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

6. 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.

Net assets invested in capital assets represent the accumulated value of the capital assets of TWCC.

Unrestricted net assets represent the accumulated earnings of TWCC.

7. 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 expenditures during the reporting period. Actual results could differ from those estimates.

E. Budgetary Data

General Budget Policies

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.

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

1. Summary of Significant Accounting Policies (Continued)

F. Revenues and Expenditures

1. Revenues

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

Intergovernmental

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and state grants mandating TWCC perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met, usually when the corresponding expenditure is incurred.

Voluntary exchange transactions result from legislative or contractual agreements, such as grants, entitlements, appropriations, and donations. The provider may establish purpose restrictions or eligibility requirements. Revenues are recognized in the year to which they apply according to the statute or contract. Gifts and contributions from individuals are also considered voluntary nonexchange transactions and are generally recognized when received.

Exchange Transactions

Charges for services and miscellaneous revenue are generally recognized as revenue when earned.

2. Expenditures

Expenditure recognition for the General Fund includes only amounts represented by current liabilities.

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

2. Stewardship, Compliance, and Accountability

Expenditures in Excess of Budget

The General Fund had expenditures in excess of final budget for the year ended December 31, 2009, as follows:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Public safety	\$ 1,507,277	\$ 1,488,706	\$ 18,571

3. Detailed Notes

A. Assets

1. Deposits

Cash transactions are administered by the Todd 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. TWCC had no investments through Todd County at December 31, 2009 and 2010.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, TWCC's deposits may not be returned to it. TWCC does not have a deposit policy for custodial credit risk. As of December 31, 2009 and 2010, Todd County's deposits were fully insured and collateralized.

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

3. Detailed Notes

A. Assets (Continued)

2. Receivables

Amounts due from other governments consisted of state grants in the amount of \$129,524 at December 31, 2009, and \$125,970 at December 31, 2010.

TWCC did not have any receivables scheduled to be collected beyond one year as of December 31, 2009 and 2010.

3. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Buildings	\$ 171,612	\$ -	\$ -	\$ 171,612
Office equipment	47,593	-	-	47,593
Automotive	<u>110,502</u>	<u>12,567</u>	<u>-</u>	<u>123,069</u>
Total capital assets depreciated	<u>\$ 329,707</u>	<u>\$ 12,567</u>	<u>\$ -</u>	<u>\$ 342,274</u>
Less: accumulated depreciation for				
Buildings	\$ 39,331	\$ 4,291	\$ -	\$ 43,622
Office equipment	42,913	2,063	-	44,976
Automotive	<u>81,626</u>	<u>10,435</u>	<u>-</u>	<u>92,061</u>
Total accumulated depreciation	<u>\$ 163,870</u>	<u>\$ 16,789</u>	<u>\$ -</u>	<u>\$ 180,659</u>
Total Capital Assets Depreciated, Net	<u>\$ 165,837</u>	<u>\$ (4,222)</u>	<u>\$ -</u>	<u>\$ 161,615</u>

Depreciation expense of \$16,789 was charged to TWCC's public safety function for the year ended December 31, 2009.

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

3. Detailed Notes

A. Assets

3. Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Buildings	\$ 171,612	\$ -	\$ -	\$ 171,612
Office equipment	47,593	-	-	47,593
Automotive	<u>123,069</u>	<u>-</u>	<u>-</u>	<u>123,069</u>
Total capital assets depreciated	<u>\$ 342,274</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 342,274</u>
Less: accumulated depreciation for				
Buildings	\$ 43,622	\$ 4,291	\$ -	\$ 47,913
Office equipment	44,976	872	-	45,848
Automotive	<u>92,061</u>	<u>10,435</u>	<u>-</u>	<u>102,496</u>
Total accumulated depreciation	<u>\$ 180,659</u>	<u>\$ 15,598</u>	<u>\$ -</u>	<u>\$ 196,257</u>
Total Capital Assets Depreciated, Net	<u>\$ 161,615</u>	<u>\$ (15,598)</u>	<u>\$ -</u>	<u>\$ 146,017</u>

Depreciation expense of \$15,598 was charged to TWCC's public safety function for the year ended December 31, 2010.

B. Liabilities

1. Employee Benefits

Employees are granted vacation in varying amounts based on their length of service. Vacation leave accrual varies from 12 to 27 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 compensated absences. Sick leave, valued at \$283,719 at December 31, 2009, and \$266,132 at December 31, 2010, is available to employees in the event of illness-related absences, of which 40 percent is paid upon separation.

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

3. Detailed Notes

B. Liabilities (Continued)

2. Changes in Long-Term Liabilities

Long-term liability activity for the years ended December 31, 2009 and 2010, was as follows:

<u>2009</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 154,619	\$ 19,782	\$ -	\$ 174,401	\$ 34,880
<u>2010</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 174,401	\$ -	\$ 12,224	\$ 162,177	\$ 32,435

4. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Todd-Wadena Community Corrections are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General 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.

General 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.

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 (five years for those first eligible for membership after June 30, 2010). Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

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

4. Pension Plans

A. Defined Benefit Plans

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 General Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for members hired prior to July 1, 1989, and is the age for unreduced Social Security benefits capped at age 66 for Coordinated Plan members hired on or after July 1, 1989. 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.

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

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

4. Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. TWCC makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary.

TWCC is required to contribute the following percentages of annual covered payroll in 2009 and 2010:

	2010	2009
General Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	7.00	6.75

TWCC's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund were:

2010	2009	2008
\$ 59,868	\$ 59,504	\$ 53,965

These contributions are equal to the contractually required contribution rates for each year as set by state statute.

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

5. 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 Intergovernmental Trust (MCIT) to protect against liabilities from workers' compensation and property and casualty.

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 \$430,000 per claim in 2009 and \$450,000 per claim in 2010 and 2011. 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 the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess TWCC in a method and amount to be determined by MCIT.

TWCC purchases commercial insurance for other risks of loss. There were no significant reductions in insurance in either 2009 or 2010 or settlements in excess of insurance coverage for any of the past three years.

B. Joint Ventures

Wadena County Family Service Collaborative

The Wadena County Family Service 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.

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

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Wadena County Family Service Collaborative (Continued)

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 must give a 180-day notice. The withdrawing party will remain liable for fiscal obligations incurred prior to the effective date of withdrawal but will incur no additional fiscal liability beyond the effective date of withdrawal. Upon termination of the Collaborative, all property and remaining funds will be divided among the remaining members. Distribution will 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. TWCC contributed \$500 annually to the Collaborative for 2009 and 2010.

Todd County Family Service Collaborative

The Todd County Family Service 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 CEP, Inc.; 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.

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

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

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Todd County Family Service Collaborative (Continued)

In the event of a withdrawal from the Collaborative, the withdrawing party must give a 90-day notice. The withdrawing party will 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 will 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 2009 and 2010, TWCC did not contribute any funds to the Collaborative.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010**

FINANCIAL STATEMENT AUDIT--INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Segregation of Duties

Due to the limited number of office personnel within Todd-Wadena Community Corrections' (TWCC) offices, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of TWCC; however, TWCC's 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 TWCC's 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 copies 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 Bernice to be accompanied by a receipt.

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

06-1 Preparation of Financial Statements

TWCC is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Preparation of the financial statements is the responsibility of TWCC's management. Financial statement preparation in accordance with GAAP requires internal control over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

TWCC, through its fiscal agent Todd County, has established controls and procedures for recording, processing, and summarizing its accounting data used in the preparation of its financial statements.

As is the case with many small and medium-sized entities, TWCC has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, TWCC's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by TWCC's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, TWCC lacks internal control over the preparation of financial statements in accordance with GAAP.

We recommend TWCC obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If TWCC still intends to have staff from the Office of the State Auditor assist in preparation then, at a minimum, it must identify and train individuals to obtain the expertise so they can sufficiently review, understand, and approve TWCC's financial statements, including notes. As an alternative, TWCC could consider hiring an outside consultant to assist in preparing its basic financial statements.

Client's Response:

Regarding preparation of financial statements, we will explore training opportunities so that accounting staff will be familiar with the key components of strong internal controls and to understand the financial statements and the required disclosures. We will also explore the alternative of possibly hiring a consultant to assist with preparation of the financial statements.

ITEM ARISING THIS YEAR

10-1 Other Postemployment Benefits (OPEB)

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was effective for TWCC for the year ended December 31, 2009, and governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides the accounting and reporting standards for the various OPEB 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.

For 2009 and 2010, TWCC has not reported its OPEB liability in the governmental activities and, accordingly, has not reported the change to the net OPEB obligation. Accounting principles generally accepted in the United States of America require that OPEB obligations and the annual OPEB cost be accrued as liabilities and expenses as the employees earn the right to the benefits. Accruing OPEB costs would increase liabilities, reduce net assets, and change the expenses of the governmental activities.

We recommend TWCC comply with the requirements of GASB Statement 45. Some of the issues the TWCC Joint Powers Board needs to address in order to comply with this statement are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the Joint Powers Board 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 the Joint Powers Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Joint Powers Board will have to comply with legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;
- if an OPEB trust will be established, the Joint Powers Board will have to decide whether to establish a revocable or an irrevocable trust, and report that trust appropriately in the financial statements; and
- in order to determine annual costs and liabilities that need to be recognized, the Joint Powers Board will have to decide whether to hire an actuary.

Client's Response:

Regarding the issue of Other Postemployment Benefits (OPEB), we will work with Todd County, our fiscal host, in determining OPEB for employees. Once OPEB is determined TWCC will decide whether to establish an advanced trust fund or pay as we go. In order to determine annual costs and liabilities, TWCC will decide whether to hire their own actuary, or will also explore the possibilities of using Todd County's actuary.

OTHER FINDINGS AND RECOMMENDATIONS

OTHER ITEM FOR CONSIDERATION

GASB Statement 54

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for TWCC for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

TWCC should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. TWCC can start with the following steps:

- review the requirements of GASB Statement 54;
- review current fund balance and compare to the new classifications;
- reclassify January 1, 2011, fund balance using the new classifications;
- review/update/prepare a comprehensive fund balance policy;
- prepare appropriate Board resolutions to commit fund balance; and
- if the Joint Powers Board intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

Additional implementation steps could include deciding on how fund balance will be presented in the financials, for example, detailed vs. aggregate methods, and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at:

http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Joint Powers Board
Todd-Wadena Community Corrections

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the governmental activities and the General Fund of Todd-Wadena Community Corrections (TWCC) as of and for the years ended December 31, 2009 and 2010, in accordance with auditing standards generally accepted in the United States of America, we considered TWCC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TWCC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of TWCC's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of TWCC's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies described

in the accompanying Schedule of Findings and Recommendations as items 96-1, 06-1, and 10-1. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Minnesota Legal Compliance

We have audited the financial statements of the governmental activities and the General Fund of TWCC as of and for the years ended December 31, 2009 and 2010, which collectively comprise TWCC's basic financial statements. 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 Political Subdivisions*, 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 Political Subdivisions* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness because TWCC did not have public debt.

The results of our tests indicate that, for the items tested, TWCC complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to TWCC, and we are reporting it for that purpose.

TWCC's written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit TWCC's responses and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Joint Powers Board, Executive Committee, management, and others within TWCC 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

June 24, 2011