

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2008

## **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, 2007 and 2008**



**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  
2008**

	Position	County
<b>Joint Powers Board</b>		
Randy Neumann		Todd County
Gary Kneisel		Todd County
Mark Nelson		Todd County
David Kircher		Todd County
Mark Blessing		Todd County
Lane Waldahl		Wadena County
Orville Meyer		Wadena County
Bill Stearns		Wadena County
Mary Harrison		Wadena County
David Schermerhorn		Wadena County
<b>Executive Committee</b>		
Mark Nelson		Todd County
Mark Blessing	Vice Chair	Todd County
Orville Meyer		Wadena County
Lane Waldahl	Chair	Wadena County
Honorable Sally I. Robertson		Todd and Wadena Counties
Mark Hepokoski		Wadena County
Judy Denny		Todd County
<b>Community Corrections Advisory Board</b>		
Naomi Moyer	Citizen Member	
Connie Nelson	Victim Services	
Judy Denny	Ethnic Minorities	
Mark Hepokoski	Citizen Member	
Mark Nelson	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 Mikkelsen	Todd County Sheriff	
Cheryl Schneider	Health Professional	
Frank Sandelin	Social Services Director	
Jim Hofer	Educational Administrator	
Katherine Langer	Correctional Administrator	
Orville Meyer	Wadena County Commissioner	
Lane Waldahl	Wadena County Commissioner	
Sarah Urbach	Senior Corrections Agent	

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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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, 2007 and 2008, 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, 2007 and 2008, 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.

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

July 17, 2009

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2007 AND 2008  
(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, 2007 and 2008. 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 2007, assets exceeded liabilities by \$263,888 (Exhibit 1), of which \$154,320 is invested in capital assets, leaving unrestricted net assets of \$109,568.
- In 2008, assets exceeded liabilities by \$422,602 (Exhibit 4), of which \$165,837 is invested in capital assets, leaving unrestricted net assets of \$256,765.
- Total net assets increased from \$263,888 in 2007 to \$422,602 in 2008, an increase of \$158,714, or 60.1 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 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 an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. These columns provide a detailed short-term view of the operations and the basic services provided. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs. We reconcile the relationship (or differences) between governmental funds and governmental activities (reported in the third column) in the center column of each statement.

**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 \$263,888 and \$422,602 at December 31, 2007 and 2008, respectively. The largest portion of TWCC's net assets reflects current assets.

	<b>Net Assets</b>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets			
Current and other assets	\$ 454,020	\$ 334,802	\$ 244,474
Capital assets	<u>165,837</u>	<u>154,320</u>	<u>143,349</u>
Total Assets	<u>\$ 619,857</u>	<u>\$ 489,122</u>	<u>\$ 387,823</u>
Liabilities			
Current liabilities	\$ 73,560	\$ 106,343	\$ 82,185
Noncurrent liabilities	<u>123,695</u>	<u>118,891</u>	<u>120,839</u>
Total Liabilities	<u>\$ 197,255</u>	<u>\$ 225,234</u>	<u>\$ 203,024</u>
Net Assets			
Invested in capital assets	\$ 165,837	\$ 154,320	\$ 143,349
Unrestricted	<u>256,765</u>	<u>109,568</u>	<u>41,450</u>
Total Net Assets	<u>\$ 422,602</u>	<u>\$ 263,888</u>	<u>\$ 184,799</u>

## Governmental Activities

TWCC's activities during 2007 increased net assets by \$79,089, or 42.8 percent. In 2008, net assets increased by \$158,714, or 60.1 percent. Key elements in these increases in net assets are as follows:

	Changes in Net Assets		
	2008	2007	2006
Revenues			
Intergovernmental	\$ 1,494,637	\$ 1,402,049	\$ 1,220,353
Charges for services	71,114	49,716	42,475
Miscellaneous	21,508	23,539	21,150
Total Revenues	\$ 1,587,259	\$ 1,475,304	\$ 1,283,978
Expenses			
Public safety	\$ 1,428,545	\$ 1,396,215	\$ 1,314,912
Debt service	-	-	51
Total Expenses	\$ 1,428,545	\$ 1,396,215	\$ 1,314,963
Net Change in Net Assets	\$ 158,714	\$ 79,089	\$ (30,985)
Net Assets - January 1	263,888	184,799	215,784
Net Assets - December 31	\$ 422,602	\$ 263,888	\$ 184,799

## 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 \$251,265 and \$382,874 at December 31, 2007 and 2008, respectively.

Revenues for TWCC's General Fund increased by \$184,409 from 2006 to 2007, while total expenditures increased by \$104,609 during the same period. For 2007 to 2008, revenues for TWCC's General Fund increased by \$97,279, while total expenditures increased by \$24,436.

As shown in the Statement of Revenues, Expenditures, and Changes in Fund Balance (Exhibit 2) for 2007, intergovernmental revenue totaled \$1,395,132, or 95 percent, of total revenues. For 2008, intergovernmental revenue totaled \$1,473,044 (Exhibit 5), an increase of \$77,912 over 2007, and accounted for 94 percent of total revenues.

## **General Fund Budgetary Highlights**

TWCC's expenditure budgets, in comparison with the prior year, increased by \$103,860 in 2007 and increased by \$134,660 in 2008. 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, 2007, totaled \$154,320, an increase of \$10,971, or 7.7 percent. In 2008, depreciable capital assets, net of accumulated depreciation, increased by \$11,517, or 7.5 percent, to \$165,837 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 2007 or 2008.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

TWCC adopted the 2009 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 remain at approximately the same level through June 2009. 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, 2007**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
<b>Current assets</b>			
Cash and pooled investments	\$ 208,412	\$ -	\$ 208,412
Petty cash and change funds	100	-	100
Due from other governments	126,290	-	126,290
<b>Noncurrent assets</b>			
Depreciable capital assets - net	-	154,320	154,320
<b>Total Assets</b>	<b>\$ 334,802</b>	<b>\$ 154,320</b>	<b>\$ 489,122</b>
 <u>Liabilities and Fund Balance/Net Assets</u>			
<b>Current liabilities</b>			
Accounts payable	\$ 13,197	\$ -	\$ 13,197
Salaries payable	63,423	-	63,423
Deferred revenue - unavailable	6,917	(6,917)	-
Compensated absences	-	29,723	29,723
<b>Noncurrent liabilities</b>			
Compensated absences	-	118,891	118,891
<b>Total Liabilities</b>	<b>\$ 83,537</b>	<b>\$ 141,697</b>	<b>\$ 225,234</b>
<b>Fund Balance</b>			
Unreserved			
Undesignated	251,265	\$ (251,265)	
<b>Net Assets</b>			
Invested in capital assets		\$ 154,320	\$ 154,320
Unrestricted		109,568	109,568
<b>Total Net Assets</b>		<b>\$ 263,888</b>	<b>\$ 263,888</b>
<b>Total Liabilities and Fund Balance/Net Assets</b>	<b>\$ 334,802</b>	<b>\$ 154,320</b>	<b>\$ 489,122</b>

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

***EXHIBIT 1  
(Continued)***

**GENERAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS  
DECEMBER 31, 2007**

<b>Reconciliation of the Governmental Fund Balance to Net Assets</b>	
<b>Fund Balance - General Fund</b>	<b>\$ 251,265</b>
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.	154,320
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund.	(148,614)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>6,917</u>
<b>Net Assets - Governmental Activities</b>	<b><u><u>\$ 263,888</u></u></b>

**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, 2007**

	<b>General Fund</b>	<b>Reconciliation</b>	<b>Governmental Activities</b>
<b>Revenues</b>			
Intergovernmental	\$ 1,395,132	\$ 6,917	\$ 1,402,049
Charges for services	49,716	-	49,716
Miscellaneous	23,539	-	23,539
<b>Total Revenues</b>	<b>\$ 1,468,387</b>	<b>\$ 6,917</b>	<b>\$ 1,475,304</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
Public safety	1,409,621	(13,406)	1,396,215
<b>Net Change in Fund Balance/Net Assets</b>	<b>\$ 58,766</b>	<b>\$ 20,323</b>	<b>\$ 79,089</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>192,499</b>	<b>(7,700)</b>	<b>184,799</b>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 251,265</b>	<b>\$ 12,623</b>	<b>\$ 263,888</b>

**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** **\$ 58,766**

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 in revenues deferred as unavailable.

6,917

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	\$ 25,538	
Current year depreciation	(14,567)	10,971

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.

2,435

**Change in Net Assets of Governmental Activities** **\$ 79,089**

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

*EXHIBIT 3*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental				
State				
Minnesota Department of Corrections	\$ 938,532	\$ 938,532	\$ 971,422	\$ 32,890
Minnesota Department of Revenue	-	-	4,177	4,177
Minnesota Department of Public Safety	61,610	61,610	74,887	13,277
Local	403,182	403,182	344,646	(58,536)
Charges for services	-	-	49,716	49,716
Miscellaneous	-	-	23,539	23,539
<b>Total Revenues</b>	<b>\$ 1,403,324</b>	<b>\$ 1,403,324</b>	<b>\$ 1,468,387</b>	<b>\$ 65,063</b>
<b>Expenditures</b>				
<b>Current</b>				
Public safety	1,403,324	1,403,324	1,409,621	(6,297)
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 58,766</b>	<b>\$ 58,766</b>
<b>Fund Balance - January 1</b>	<b>192,499</b>	<b>192,499</b>	<b>192,499</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 192,499</b>	<b>\$ 192,499</b>	<b>\$ 251,265</b>	<b>\$ 58,766</b>

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

*EXHIBIT 4*

**GENERAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS  
DECEMBER 31, 2008**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
<b>Current assets</b>			
Cash and pooled investments	\$ 317,982	\$ -	\$ 317,982
Petty cash and change funds	100	-	100
Due from other governments	135,938	-	135,938
<b>Noncurrent assets</b>			
Depreciable capital assets - net	-	165,837	165,837
<b>Total Assets</b>	<b>\$ 454,020</b>	<b>\$ 165,837</b>	<b>\$ 619,857</b>
 <u>Liabilities and Fund Balance/Net Assets</u>			
<b>Current liabilities</b>			
Accounts payable	\$ 12,421	\$ -	\$ 12,421
Salaries payable	30,215	-	30,215
Deferred revenue - unavailable	28,510	(28,510)	-
Compensated absences	-	30,924	30,924
<b>Noncurrent liabilities</b>			
Compensated absences	-	123,695	123,695
<b>Total Liabilities</b>	<b>\$ 71,146</b>	<b>\$ 126,109</b>	<b>\$ 197,255</b>
<b>Fund Balance</b>			
Unreserved			
Undesignated	382,874	\$ (382,874)	
<b>Net Assets</b>			
Invested in capital assets		\$ 165,837	\$ 165,837
Unrestricted		256,765	256,765
<b>Total Net Assets</b>		<b>\$ 422,602</b>	<b>\$ 422,602</b>
<b>Total Liabilities and Fund Balance/Net Assets</b>	<b>\$ 454,020</b>	<b>\$ 165,837</b>	<b>\$ 619,857</b>

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

***EXHIBIT 4***  
***(Continued)***

**GENERAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS  
DECEMBER 31, 2008**

<b>Reconciliation of the Governmental Fund Balance to Net Assets</b>	
<b>Fund Balance - General Fund</b>	<b>\$ 382,874</b>
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.	165,837
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund.	(154,619)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>28,510</u>
<b>Net Assets - Governmental Activities</b>	<b><u><u>\$ 422,602</u></u></b>

**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, 2008**

	<b>General Fund</b>	<b>Reconciliation</b>	<b>Governmental Activities</b>
<b>Revenues</b>			
Intergovernmental	\$ 1,473,044	\$ 21,593	\$ 1,494,637
Charges for services	71,114	-	71,114
Miscellaneous	21,508	-	21,508
<b>Total Revenues</b>	<b>\$ 1,565,666</b>	<b>\$ 21,593</b>	<b>\$ 1,587,259</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
Public safety	1,434,057	(5,512)	1,428,545
<b>Net Change in Fund Balance/Net Assets</b>	<b>\$ 131,609</b>	<b>\$ 27,105</b>	<b>\$ 158,714</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>251,265</b>	<b>12,623</b>	<b>263,888</b>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 382,874</b>	<b>\$ 39,728</b>	<b>\$ 422,602</b>

**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** **\$ 131,609**

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 - current year	\$ 28,510	
Deferred revenue - prior year	(6,917)	21,593

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	\$ 29,897	
Current year depreciation	(18,380)	11,517

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.

(6,005)

**Change in Net Assets of Governmental Activities** **\$ 158,714**

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

*EXHIBIT 6*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental				
State				
Minnesota Department of Corrections	\$ 985,595	\$ 985,595	\$ 1,021,548	\$ 35,953
Minnesota Department of Revenue	-	-	4,177	4,177
Minnesota Department of Public Safety	83,202	83,202	41,602	(41,600)
Local	469,187	469,187	405,717	(63,470)
Charges for services	-	-	71,114	71,114
Miscellaneous	-	-	21,508	21,508
<b>Total Revenues</b>	<b>\$ 1,537,984</b>	<b>\$ 1,537,984</b>	<b>\$ 1,565,666</b>	<b>\$ 27,682</b>
<b>Expenditures</b>				
<b>Current</b>				
Public safety	1,537,984	1,537,984	1,434,057	103,927
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 131,609</b>	<b>\$ 131,609</b>
<b>Fund Balance - January 1</b>	<b>251,265</b>	<b>251,265</b>	<b>251,265</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 251,265</b>	<b>\$ 251,265</b>	<b>\$ 382,874</b>	<b>\$ 131,609</b>

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

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2008**

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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, 2007 and 2008. 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**

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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**

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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**

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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**

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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**

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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, 2007, as follows:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Public safety	\$ 1,409,621	\$ 1,403,324	\$ 6,297

3. Detailed Notes

A. Assets

1. Deposits and Investments

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, 2007 and 2008.

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, 2007 and 2008, Todd County's deposits were fully insured and collateralized.

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

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3. Detailed Notes

A. Assets (Continued)

2. Receivables

Amounts due from other governments consisted of state grants in the amount of \$126,290 at December 31, 2007, and \$135,938 at December 31, 2008.

TWCC did not have any receivables scheduled to be collected beyond one year as of December 31, 2007 and 2008.

3. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Buildings	\$ 160,151	\$ 11,461	\$ -	\$ 171,612
Office equipment	51,747	-	-	51,747
Automotive	<u>96,721</u>	<u>14,077</u>	<u>25,832</u>	<u>84,966</u>
Total capital assets depreciated	<u>\$ 308,619</u>	<u>\$ 25,538</u>	<u>\$ 25,832</u>	<u>\$ 308,325</u>
Less: accumulated depreciation for				
Buildings	\$ 30,749	\$ 4,291	\$ -	\$ 35,040
Office equipment	46,004	3,355	-	49,359
Automotive	<u>88,517</u>	<u>6,921</u>	<u>25,832</u>	<u>69,606</u>
Total accumulated depreciation	<u>\$ 165,270</u>	<u>\$ 14,567</u>	<u>\$ 25,832</u>	<u>\$ 154,005</u>
Total Capital Assets Depreciated, Net	<u>\$ 143,349</u>	<u>\$ 10,971</u>	<u>\$ -</u>	<u>\$ 154,320</u>

Depreciation expense of \$14,567 was charged to TWCC's public safety function for the year ended December 31, 2007.

**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, 2008, 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	51,747	4,361	8,515	47,593
Automotive	<u>84,966</u>	<u>25,536</u>	<u>-</u>	<u>110,502</u>
Total capital assets depreciated	<u>\$ 308,325</u>	<u>\$ 29,897</u>	<u>\$ 8,515</u>	<u>\$ 329,707</u>
Less: accumulated depreciation for				
Buildings	\$ 35,040	\$ 4,291	\$ -	\$ 39,331
Office equipment	49,359	2,069	8,515	42,913
Automotive	<u>69,606</u>	<u>12,020</u>	<u>-</u>	<u>81,626</u>
Total accumulated depreciation	<u>\$ 154,005</u>	<u>\$ 18,380</u>	<u>\$ 8,515</u>	<u>\$ 163,870</u>
Total Capital Assets Depreciated, Net	<u>\$ 154,320</u>	<u>\$ 11,517</u>	<u>\$ -</u>	<u>\$ 165,837</u>

Depreciation expense of \$18,380 was charged to TWCC's public safety function for the year ended December 31, 2008.

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 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 compensated absences. Sick leave, valued at \$222,745 at December 31, 2007, and \$215,322 at December 31, 2008, 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**

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3. Detailed Notes

B. Liabilities (Continued)

2. Changes in Long-Term Liabilities

Long-term liability activity for the years ended December 31, 2007 and 2008, was as follows:

<u>2007</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 151,049	\$ -	\$ 2,435	\$ 148,614	\$ 29,723
<u>2008</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 148,614	\$ 6,005	\$ -	\$ 154,619	\$ 30,924

4. Pension Plans - Defined Benefit Plans

A. 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 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.

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 defined 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.

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

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4. Pension Plans - Defined Benefit Plans

A. Plan Description (Continued)

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. 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 Public Employees Retirement Fund. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. 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 9.1 and 6.0 percent, respectively, of their annual covered salary.

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

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4. Pension Plans - Defined Benefit Plans

B. Funding Policy (Continued)

TWCC is required to contribute the following percentages of annual covered payroll in 2007, 2008, and 2009:

	2007	2008	2009
Public Employees Retirement Fund			
Basic Plan Members	11.78%	11.78%	11.78%
Coordinated Plan Members	6.25	6.50	6.75

TWCC's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund were:

	2008	2007	2006
Public Employees Retirement Fund	\$ 53,965	\$ 46,808	\$ 42,781

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

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 Insurance 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 \$400,000 per claim in 2007 and \$410,000 per claim in 2008. Should MCIT Workers' Compensation 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**

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5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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 2007 or 2008 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.

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.

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

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5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Wadena County Family Service Collaborative (Continued)

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 2007 and 2008.

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 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.

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 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 2007 and 2008, 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, 2007 AND 2008**

**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 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 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.*

#### 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 financial statements.*

## **OTHER FINDINGS AND RECOMMENDATIONS**

### OTHER ITEM FOR CONSIDERATION

#### Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which 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 other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

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

In the 2008 legislative session, the Legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows governments to create both irrevocable and revocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both irrevocable and revocable OPEB trusts; and

- it also permits governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

Some of the issues that TWCC's Board will need to address in order to comply with the statement are:

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

GASB Statement 45 would be applicable to TWCC for the year ended December 31, 2009.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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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, 2007 and 2008, 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects TWCC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of TWCC's financial statements that is more than inconsequential will not be prevented or detected by TWCC's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by TWCC's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be 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 the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 96-1 and 06-1 to be significant deficiencies in internal control over financial reporting.

### 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, 2007 and 2008, 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 Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

TWCC's written responses to the significant deficiencies 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 report 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

July 17, 2009