STATE OF MINNESOTA

Office of the State Auditor

Patricia Anderson
State Auditor

TRI-COUNTY COMMUNITY CORRECTIONS
CROOKSTON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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

The State Auditor performs approximately 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

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

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

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TRI-COUNTY COMMUNITY CORRECTIONS
CROOKSTON, MINNESOTA

For the Year Ended December 31, 2004

Audit Practice Division
Office of the State Auditor
State of Minnesota

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TRI-COUNTY COMMUNITY CORRECTIONS
CROOKSTON, MINNESOTA

TABLE OF CONTENTS

	Reference	Page
Introduction		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Statement of Net Assets	Exhibit 1	8
Statement of Revenues, Expenses, and Changes in Net Assets	Exhibit 2	9
Statement of Cash Flows	Exhibit 3	10
Notes to the Financial Statements		11
Management and Compliance Section		
Schedule of Findings and Recommendations		23
Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance		24

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Introductory Section

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TRI-COUNTY COMMUNITY CORRECTIONS
CROOKSTON, MINNESOTA

ORGANIZATION
2004

The Northwest Regional Corrections Board consists of two County Commissioners from each of the participating counties.

Name	Position	County	Term Expires
Board			
Warren Strandell	Chair	Polk	January 2007
Warren Olson	Vice Chair	Norman	January 2007
Ron Weiss	Secretary	Red Lake	January 2009
Lee Nielson*	Member	Red Lake	January 2009
Steve Bommersbach	Member	Norman	January 2009
Warren Affeldt	Member	Polk	January 2007
Susan E. Mills	Administrator/Director		

* Replaced by Brent Strand effective January 1, 2005, through January 1, 2009.

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Northwest Regional Corrections Board
Tri- County Community Corrections

We have audited the basic financial statements of Tri-County Community Corrections as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the management of Tri-County Community Corrections. Our responsibility is to express an opinion 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tri-County Community Corrections at December 31, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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/Pat Anderson	*/s/Greg Hierlinger*
PATRICIA ANDERSON STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

End of Fieldwork: February 8, 2006

MANAGEMENT’S DISCUSSION AND ANALYSIS

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TRI-COUNTY COMMUNITY CORRECTIONS
CROOKSTON, MINNESOTA

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

The Management's Discussion and Analysis (MD&A) for Tri-County Community Corrections provides an overview of the Center's financial activities for the fiscal year ended December 31, 2004. 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 Tri-County Community Correction's financial statements.

Tri-County Community Corrections is a joint powers enterprise operation of Norman, Polk, and Red Lake Counties providing local correction, detention, and probation services to the aforementioned counties. Corrections services include the adult facility Northwest Regional Corrections Center (NWRCC) and juvenile placement services at the Red River Valley Juvenile Center (RRVJC). The Regional Corrections Board is the governing body for Tri-County Community Corrections and is made up of two Commissioners from each of the three counties.

Polk County serves as the fiscal host for Tri-County Community Corrections for the purpose of receiving and depositing funds. Tri-County Community Corrections is considered a distinct and separate entity from any of the three counties, and financial accountability lies with the Regional Corrections Board and its designated staff. Tri-County Community Corrections is audited as a stand-alone subunit of local government.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements of this agency. Tri-County Community Correction's basic financial statements consist of two parts: the financial statements and the notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements as required supplementary information.

The financial statements present the Tri-County Community Correction's financial activities and consist of the following:

- The statement of net assets compares the assets and liabilities to give an overall view of the financial health of Tri-County Community Corrections.

- The statement of revenues, expenses, and changes in net assets provides information on an aggregate view of Tri-County Community Correction's finances. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

- The statement of cash flows provides sources and uses of cash for Tri-County Community Corrections.

FINANCIAL ANALYSIS

Net Assets

	2004	2003	Increase (Decrease)	Percentage Change (%)
Assets				
Current and other assets	$ 1,188,660	$ 1,232,839	$ (44,179)	(3.60)
Capital assets	75,872	77,956	(2,084)	(2.70)
Total Assets	$ 1,264,532	$ 1,310,795	$ (46,263)	(3.50)
Liabilities				
Current liabilities	$ 261,301	$ 132,597	$ 128,704	97.10
Long-term/noncurrent liabilities	57,803	142,131	(84,328)	(59.30)
Total Liabilities	$ 319,104	$ 274,728	$ 44,376	16.20
Net Assets				
Invested in capital assets	$ 66,915	$ 65,821	$ 1,094	1.70
Unrestricted	878,513	970,246	(91,733)	(9.45)
Total Net Assets	$ 945,428	$ 1,036,067	$ (90,639)	(8.70)

During 2004, Tri-County Community Corrections began to experience a much larger than average increase in the number of individuals incarcerated at NWRCC. As an effect, the net assets of Tri-County were decreased while incurring additional expense.

Change in Net Assets

	2004	2003	Increase (Decrease)	Percentage Change (%)
Operating revenues				
Charges for services	$ 842,111	$ 616,267	$ 225,844	36.6
Miscellaneous	345,766	352,045	(6,279)	(1.8)
Nonoperating revenues				
Intergovernmental	3,072,758	3,093,122	(20,364)	(0.7)
Interest	9,395	7,567	1,828	24.2
Total Revenues	$ 4,270,030	$ 4,069,001	$ 201,029	4.9
Operating expenses				
Administrative	$ 400,698	$ 349,498	$ 51,200	14.6
Education	114,980	121,729	(6,749)	(5.5)
Residential programming	2,483,058	2,402,986	80,072	3.3
Nonresidential programming	1,336,376	1,108,116	228,260	20.6
Depreciation	25,557	30,730	(5,173)	(16.8)
Total Operating Expenses	$ 4,360,669	$ 4,013,059	$ 347,610	8.7
Increase (Decrease) in Net Assets	$ (90,639)	$ 55,942	$ (146,581)	(262.0)

In 2004, the Board dealt with increased population demands:

- In 2004, there was a dramatic increase in the NWRCC's daily population resulting in a need to house inmates in other facilities at cost to Tri-County Community Corrections. The adult bed lease cost exceeded budget, resulting in a 41 percent over-budget expenditure in this line item.

The decrease in net assets is reflective of these additional expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital Assets at Year-End
(Net of Depreciation)

	2004	2003	Increase (Decrease)	Percentage Change (%)
Equipment	$ 374,732	$ 351,259	$ 23,473	6.7
Less: accumulated depreciation	(298,860)	(273,303)	(25,557)	(9.4)
Total Net Fixed Assets	$ 75,872	$ 77,956	$ (2,084)	(2.7)

Debt

As of December 31, 2004, Tri-County Community Corrections had $8,957 in capital leases on a lease payable on a Kyocera Digital copier dated May 17, 2002, due in monthly installments of $289 through June 2007.

	2004	2003
Capital lease payable		
2002 Kyocera Digital Copier - Administration	$ 8,957	$ 12,135

FUTURE EVENTS

Due to the increased need for bed space at NWRCC, substantial planning has gone into the evaluation and planning of a new Justice Center and Jail. Construction began in the fall of 2005, and the facility is expected to open in January 2008.

CONTACTING THE BOARD’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Board’s finances and to show the Board’s accountability for the money it receives. If you have questions about this report or need additional financial information, please contact:

Susan E. Mills, Executive Director
Tri-County Community Corrections
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Crookston, Minnesota 56716
218-281-6363
susan.mills@co.polk.mn.us

BASIC FINANCIAL STATEMENTS

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TRI-COUNTY COMMUNITY CORRECTIONS
CROOKSTON, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
DECEMBER 31, 2004

Assets		
Current assets		
Cash in custody of Polk County Treasurer	$	916,951
Petty cash and change funds		350
Accounts receivable - net		8,596
Accrued interest receivable		1,035
Due from other governments		252,797
Inventories		8,931
Total current assets	**$**	**1,188,660**
Noncurrent assets		
Capital assets		
Depreciable - net		75,872
Total Assets	**$**	**1,264,532**
Liabilities		
Current liabilities		
Accounts payable	$	59,367
Salaries payable		35,459
Compensated absences payable - current		114,830
Due to other governments		48,099
Unearned revenue		79
Capital lease payable - current		3,467
Total current liabilities	**$**	**261,301**
Noncurrent liabilities		
Compensated absences payable - long-term	$	52,313
Capital lease payable - long-term		5,490
Total noncurrent liabilities	**$**	**57,803**
Total Liabilities	**$**	**319,104**
Net Assets		
Invested in capital assets - net of related debt	$	66,915
Unrestricted		878,513
Total Net Assets	**$**	**945,428**

The notes to the financial statements are an integral part of this statement.

TRI-COUNTY COMMUNITY CORRECTIONS
CROOKSTON, MINNESOTA

EXHIBIT 2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004

Operating Revenues		
Charges for services	$	842,111
Telephone commissions		14,142
Miscellaneous		331,624
Total Operating Revenues	**$**	**1,187,877**
Operating Expenses		
Administration	$	400,698
Education		114,980
Residential programs		2,483,058
Nonresidential programs		1,336,376
Depreciation		25,557
Total Operating Expenses	**$**	**4,360,669**
Operating Income (Loss)	**$**	**(3,172,792)**
Nonoperating Revenues (Expenses)		
Intergovernmental	$	3,072,758
Interest income		9,395
Total Nonoperating Revenues (Expenses)	**$**	**3,082,153**
Change in Net Assets	**$**	**(90,639)**
Net Assets - January 1		**1,036,067**
Net Assets - December 31	**$**	**945,428**

The notes to the financial statements are an integral part of this statement.

TRI-COUNTY COMMUNITY CORRECTIONS
CROOKSTON, MINNESOTA

EXHIBIT 3

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows From Operating Activities		
Receipts from customers and users	$	1,258,708
Payments to suppliers		(1,162,949)
Payments to employees		(3,123,354)
Net cash provided by (used in) operating activities	**$**	**(3,027,595)**
Cash Flows From Noncapital Financing Activities		
Intergovernmental	**$**	**3,101,136**
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets	$	(23,473)
Principal payment on capital lease		(3,178)
Net cash provided (used) by capital and related financing activities	**$**	**(26,651)**
Cash Flows From Investing Activities		
Interest earnings received	**$**	**8,965**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**55,855**
Cash and Cash Equivalents at January 1		**861,446**
Cash and Cash Equivalents at December 31	**$**	**917,301**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	**$**	**(3,172,792)**
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Depreciation expense	$	25,557
(Increase) decrease in accounts receivable		31,507
(Increase) decrease in due from other governments		39,324
(Increase) decrease in inventories		1,334
Increase (decrease) in accounts payable		8,115
Increase (decrease) in salaries payable		(5,134)
Increase (decrease) in compensated absences payable - current		89,666
Increase (decrease) in compensated absences payable - long-term		(81,150)
Increase (decrease) in due to other governments		35,978
Total adjustments	**$**	**145,197**
Net Cash Provided by (Used in) Operating Activities	**$**	**(3,027,595)**

The notes to the financial statements are an integral part of this statement.

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1. Summary of Significant Accounting Policies

The Tri-County Community Corrections' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Board has the option to apply FASB pronouncements issued after that date, the Board has chosen not to do so. The more significant accounting policies established in GAAP and used by the Board are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. For the first time, the financial statements include a Management's Discussion and Analysis section providing an analysis of the Board's overall financial position and results of operations.

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

A. Financial Reporting Entity

Tri-County Community Corrections was established pursuant to Minn. Stat. §§ 641.261-.266 and a joint powers agreement effective August 1, 1975, between Norman, Polk, and Red Lake Counties. Tri-County Community Corrections was created to house, supervise, treat, counsel, and provide other correctional services to prisoners throughout the territorial area of the contracting parties.

Tri-County Community Corrections is governed by a six-member Board comprised of two County Commissioners from each of the participating counties. Each member serves for a period of two years. The Board is organized with a chair, a vice chair, and a secretary elected for terms of one year. The Board is empowered to contract for personal services in the exercise of its powers.

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

Tri-County Community Corrections is a joint venture, and no county has administrative or financial responsibility for the corrections center. It is presented as an enterprise fund. The fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities. The Board's net assets are reported as: (1) invested in capital assets, net of related debt, and (2) unrestricted net assets. Tri-County Community Corrections did not have any restricted net assets as of December 31, 2004.

C. Measurement Focus and Basis of Accounting

The Board's financial statements 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. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then unrestricted as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The Polk County Auditor/Treasurer is custodian of the operating funds of Tri-County Community Corrections. The Community Corrections' cash balance is included in Polk County's cash and pooled investments, which act as a demand deposit account. As of December 31, 2004, all funds of the Community Corrections held by Polk County were insured or collateralized. Financial activities relating to the Community Corrections' cash receipts and disbursements are recorded in an investment trust fund of Polk County. For the statement of cash flows, cash and cash equivalents include cash in custody of the Polk County Treasurer and petty cash.

1. Summary of Significant Accounting Policies

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

2. Receivables

All receivables are shown net of an allowance for uncollectibles.

3. Inventory

Inventory is valued at average cost using the first-in, first-out method of accounting.

4. Capital Assets

Capital assets, which include property, plant, and equipment are reported in the financial statements. Capital assets are defined by the Board as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Depreciation of capital assets is determined using the straight-line method over the estimated lives of the assets, which vary from 2 to 20 years.

5. Compensated Absences

The accompanying financial statements include a liability for unused vacation and sick leave that has vested or is expected to vest. Tri-County Community Corrections' personnel policies provide that employees earn vacation leave dependent upon their years of service. Vacation leave may be accumulated to a maximum of one year's accrual. Sick leave is accumulated at one day per month for full-time employees. Eligible part-time employees earn sick leave on a pro-rata basis.

Unvested sick leave, approximately $329,931 at December 31, 2004, is available to employees in the event of illness-related absences and is not paid to them at termination.

1. Summary of Significant Accounting Policies

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

6. Operating Revenues and Expenses

The Community Correction's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing services. Nonexchange revenues, including member county appropriations, interest income, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating gains (losses). Operating expenses are all expenses incurred to provide services.

7. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Reclassifications

Some account balances presented in the notes were reclassified as of and for the year ended December 31, 2003, as previously reported. Those reclassifications, which did not require a restatement of the net assets, were required for comparability to the financial statements as of and for the year ended December 31, 2004, and must be considered when comparing the financial statements of this report with those of prior reports.

2. Detailed Notes on All Funds

A. Assets

1. Receivables

Receivables as of December 31, 2004, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables		Amounts Not Scheduled for Collection During the Subsequent Year	
Accounts	$	8,596	$	-
Due from other governments		252,797		-
Interest		1,035		-
Total Receivables	$	262,428	$	-

2. Capital Assets

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

	Beginning Balance		Depreciation Expense		Additions		Deletions		Ending Balance	
Equipment	$	351,259	$	-	$	23,473	$	-	$	374,732
Less: accumulated depreciation		(273,303)		(25,557)		-		-		(298,860)
Net Fixed Assets	$	77,956	$	(25,557)	$	23,473	$	-	$	75,872

B. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

	Total Payables	
Accounts	$	59,367
Salaries		35,459
Due to other governments		48,099
Total Payables	$	142,925

2. Detailed Notes on All Funds

B. Liabilities (Continued)

2. Leases

Capital Lease

Tri-County Community Corrections has entered into a lease agreement as lessee for financing the acquisition of certain equipment. The lease agreement qualifies as capital leases for accounting purposes and, therefore, has been recorded at the present value of their future minimum lease payments as of the inception date. The capital lease consists of the following at December 31, 2004:

Lease	Maturity	Installment	Payment Amount	Original	Balance
Digital Copier	2007	Annual	$ 3,467	$ 17,335	$ 8,957

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2004, were as follows:

Year Ending December 31	
2005	$ 3,467
2006	3,467
2007	2,023
Total minimum lease payments	$ 8,957

Operating Lease

Tri-County Community Corrections leases facilities from Polk County for $30,000 per year. The lease is for one year and is automatically extended from year to year on the same terms. Either party is required to give 90 days' written notice to terminate the lease.

2. Detailed Notes on All Funds

B. Liabilities (Continued)

3. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital lease	$ 12,135	$ -	$ 3,178	$ 8,957	$ 3,467
Compensated absences	158,627	144,164	135,648	167,143	114,830
Long-Term Liabilities	$ 170,762	$ 144,164	$ 138,826	$ 176,100	$ 118,297

3. Employee Retirement Systems and Pension Plans

A. Plan Description

All full-time and certain part-time employees of Tri-County Community Corrections are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund and the Public Employees Correctional Fund, which are cost-sharing, multiple-employer retirement plans. These plans are 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. Members who are employed in a county correctional institution and have direct contact with inmates, are covered by the Public Employees Correctional Fund.

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The 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.

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

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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. Under 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 Employee Correctional Fund members, the annuity accrual rate is 1.9 percent for each year of service.

For all Public Employees Retirement Fund members whose annuity is calculated using Method 1, and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund and the Public Employees Correctional Fund. That report may be obtained on the internet at mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Community Corrections makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

3. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

Tri-County Community Corrections is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Correctional Fund	8.75

The Community Corrections' contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Correctional Fund
2004	$ 85,527	$ 76,760
2003	82,187	70,787
2002	84,715	72,115

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

4. Risk Management

Tri-County Community Corrections is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the Board carries commercial insurance. To cover these risks, the Board is a member of both the Minnesota Counties Insurance Trust (MCIT) Workers' Compensation and Property and Casualty Divisions. For other risk, the Board carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

4. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $720,000 per claim for plan year 2004 and $760,000 per claim for plan year 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the Community Corrections in a method and amount to be determined by the MCIT.

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

5. Summary of Significant Contingencies and Other Items

A. Basis of Cost Sharing

Norman, Polk, and Red Lake Counties share in operating costs not funded by state and federal grants, fees, and other receipts. The basis for distribution of these unreimbursed costs is an agreed-upon amount.

County	Agreed Amount
Polk	85%
Norman	10
Red Lake	5
Total	100%

B. Residents' Trust Fund

Tri-County Community Corrections receives money and holds it in trust for its resident inmates. At December 31, 2004, the trust money totaled $7,136. The balance at December 31, 2004, and related financial activities during the year then ended, are not included in the accompanying financial statements.

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

C. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the Board expects such amounts, if any, to be immaterial.

D. Operating Budget

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	$ 1,019,428	$ 1,187,877	$ 168,449
Operating Expenses	4,119,964	4,360,669	(240,705)
Operating Income (Loss)	$ (3,100,536)	$ (3,172,792)	$ (72,256)
Nonoperating Revenues (Expenses)	3,107,836	3,082,153	(25,683)
Net Income (Loss)	$ 7,300	$ (90,639)	$ (97,939)
Acquisition of capital assets	$ 7,300	$ 23,473	$ (16,173)

E. Joint Venture

Polk County Collaborative

The Polk County Collaborative was formed in 2001 and operates under the authority of Minn. Stat. § 124D.23, subd. 1(a), and includes Polk County, Tri-County Community Corrections, and other community representation, including school districts and local service providers. The purpose of the Collaborative is to build communities in Polk County where children thrive by coordinating the integrated, seamless, effective, and efficient delivery of a range of social and human services to children and families.

Control of the Polk County Collaborative is vested in the Collaborative Governing Board, which is composed of elected officials representing mental health community action, Polk County, corrections, a small school district, and a larger school district.

5. Summary of Significant Contingencies and Other Items

E. Joint Venture

Polk County Collaborative (Continued)

Financing is provided by state and local grants and appropriations from the participating agencies. Polk County acts as fiscal agent for the Polk County Collaborative and reports the cash transactions of the Collaborative as an agency fund in its financial statements. During 2004, the Tri-County Community Corrections contributed $500 to the Collaborative.

Complete financial information can be obtained from:

Polk County Human Services
612 North Broadway
Crookston, Minnesota 56716

Management and Compliance Section

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

I. INTERNAL CONTROLS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Segregation of Duties

Due to the limited number of personnel within Tri-County Community Corrections, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Although this is not unusual, the Northwest Regional Corrections Board and the management of Tri-County Community Corrections 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.

We recommend that management be aware of the lack of segregation of duties within the accounting functions and implement oversight procedures to ensure that internal control policies and procedures are being followed.

PREVIOUSLY REPORTED ITEM RESOLVED

Residents' Trust Checking Account (03-1)

Bank reconciliations on the residents' trust checking account for the Center's Annex residents were not performed on a timely basis. In addition, duties were not adequately segregated regarding the residents' account.

Resolution

Bank reconciliations are now being performed by staff in the Business Office. In addition, improvements have been made to the segregation of duties related to the residents' trust account.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Northwest Regional Corrections Board
Tri-County Community Corrections

We have audited the financial statements of Tri-County Community Corrections as of and for the year ended December 31, 2004, and have issued our report thereon dated February 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

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

In planning and performing our audit, we considered Tri-County Community Corrections' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Tri-County Community Corrections' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 96-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories, except that we did not test for compliance in deposits and investments because Polk County serves as Tri-County Community Corrections' fiscal agent.

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

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

/s/Pat Anderson	*/s/Greg Hierlinger*
PATRICIA ANDERSON STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

End of Fieldwork: February 8, 2006