

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA

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.

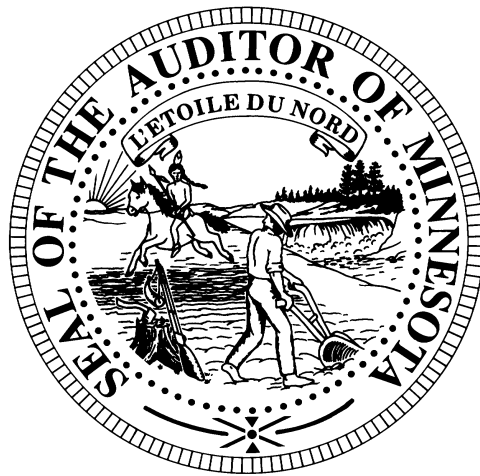
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA**

Year Ended December 31, 2004



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

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**PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Introductory Section		
Organization Schedule		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
General Fund Balance Sheet and Governmental Activities - Statement of Net Assets	Exhibit 1	8
General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and Governmental Activities - Statement of Activities	Exhibit 2	9
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance--Budgetary Comparison	Exhibit 3	10
Notes to the Financial Statements		11
Management and Compliance Section		
Schedule of Findings and Recommendations		22
Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance		24

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**PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2004**

	<u>Position</u>	<u>County</u>
Joint Powers Board		
Gene Van Binsbergen	Chair	Chippewa
Richard Larson	Vice Chair	Kandiyohi
Arvid Gollnick	Member	Lac qui Parle
John Baker	Member	Swift
Lynn Anderson	Member	Yellow Medicine
Executive Director		
Darin Balken		

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Joint Powers Board
Prairie Lakes Youth Programs

We have audited the accompanying basic financial statements of the governmental activities and the major fund information of the Prairie Lakes Youth Programs (PLYP) as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of PLYP'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 major fund of PLYP as of December 31, 2004, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, PLYP adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in the format and content of the basic financial statements. Also, as noted in Note 1.A. to the financial statements, PLYP's name has been changed from "Prairie Lakes Detention Center" to "Prairie Lakes Youth Programs."

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

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 23, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA**

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

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2004 fiscal year include the following:

- Total net assets are \$1,023,105. The net assets increased by \$130,715 for the year ended December 31, 2004.
- PLYP applied for outside grants to support activities. They received one additional grant this reporting period totaling \$12,932.
- Government-wide net assets decreased by 25 percent from the prior year.
- Overall fund level revenues totaled \$2,123,410 and were \$160,456 more than expenditures.
- The General Fund's fund balance increased \$160,456, or 54.57 percent, from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts--Independent Auditor's Report; required supplementary information, which includes the MD&A (this section); the basic financial statements; and supplementary information. The basic financial statements include the Statement of Net Assets and Governmental Fund Balance Sheet and the Statement of Activities and Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance.

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

This MD&A is intended to serve as an introduction to the basic financial statements. PLYP's basic financial statements consist of two statements, which 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.

The first column of each of the first two statements presents governmental fund data, which focus on how money flows in and out and the balances left at year-end that are available for spending. These columns 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. This column provides a detailed short-term view of the general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance 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.

The third column in each of the first two statements presents the Statement of Net Assets and the Statement of Activities, which provide information about the activities as a whole and present a longer-term view of finances. These columns tell how these services were financed in the short term as well as what remains for future spending. These columns include all of the assets and liabilities of PLYP including long-term activity. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

FINANCIAL ANALYSIS OF PLYP AS A WHOLE

Net Assets

The net assets were \$1,023,105 on December 31, 2004.

**Table A-2
Net Assets**

	2004	2003	Percent Change (%)
Assets			
Cash and investments	\$ 452,789	(1)	(1)
Due from other governments	198,771	(1)	(1)
Capital assets	<u>638,318</u>	(1)	(1)
Total Assets	<u>\$ 1,289,878</u>		

	<u>2004</u>	<u>2003</u>	<u>Percent Change (%)</u>
Liabilities			
Current liabilities			
Accounts payable	\$ 34,550	(1)	(1)
Salaries payable	71,433	(1)	(1)
Loans payable	91,083	(1)	(1)
Long-term liabilities			
Due within one year	13,941	(1)	(1)
Due after one year	<u>55,766</u>	(1)	(1)
Total Liabilities	<u>\$ 266,773</u>		
Net Assets			
Invested in capital assets	\$ 638,318	(1)	(1)
Unrestricted	<u>384,787</u>	(1)	(1)
Total Net Assets	<u>\$ 1,023,105</u>		

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

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

	<u>2004</u>	<u>2003</u>	<u>Percent Change (%)</u>
Revenues			
Intergovernmental	\$ 57,055	(1)	(1)
Charges for services	2,064,213	(1)	(1)
Investment income	1,619	(1)	(1)
Miscellaneous	<u>523</u>		
Total Revenues	\$ 2,123,410		
Expenditures			
Public safety	<u>1,992,695</u>	(1)	(1)
Excess of Revenues Over (Under) Expenditures	\$ 130,715	(1)	(1)
Net Assets - January 1, 2004	<u>892,390</u>	(1)	(1)
Net Assets - December 31, 2004	<u>\$ 1,023,105</u>		

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

CAPITAL ASSETS

As of December 31, 2004, PLYP had \$638,318 invested in capital assets. (See Table 4.) This amount represents a net decrease (including additions and deductions) of \$36,180, or 5.36 percent, from last year.

Table 4
Capital Assets at Year-End

	<u>2004</u>	<u>2003</u>
Building improvements	\$ 904,501	\$ 963,751
Less: accumulated depreciation	<u>(266,183)</u>	<u>(289,253)</u>
Net Capital Assets	<u>\$ 638,318</u>	<u>\$ 674,498</u>

This year's changes included \$36,180 of depreciation expense.

FINANCIAL ANALYSIS OF PLYP AT THE FUND LEVEL

The financial performance of PLYP as a whole is reflected in its governmental fund as well. The General Fund, which is the only governmental fund of PLYP, includes the primary operations of providing detention and correction services to juveniles under the jurisdiction of the counties which are parties to a joint powers agreement and any other Minnesota county that requests it. As PLYP completed the year, the General Fund reported a fund balance of \$454,494, which is above last year's fund balance of \$294,038, an increase of 54.57 percent. Most of the increase is due to more revenues received through charges for services during the year ending December 31, 2004, as opposed to charges for services during the year ending December 31, 2003. The Board adopted the budgets for 2005. These budgets may be amended or modified as additional revenues become available through charges for services.

FACTORS BEARING ON THE FUTURE AND NEXT YEAR'S GRANT BUDGETS AND RATES

PLYP's officials considered many factors when planning for the calendar year ending December 31, 2005, including fees that will be charged and grants available. PLYP continually reviews expenditures against revenues to determine if programs and administrative expenditures can or need to be reduced and which user fees can be increased.

CONTACTING PLYP'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of PLYP's finances and show PLYP's accountability for the money it receives. If you have any questions about this report, or need additional information, contact the Executive Director, Darin Balken, P. O. Box 894, Willmar, Minnesota 56201.

BASIC FINANCIAL STATEMENTS

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**PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA**

EXHIBIT 1

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2004**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and deposits	\$ 452,789	\$ -	\$ 452,789
Due from other governments	198,771	-	198,771
Noncurrent assets			
Capital assets			
Depreciable - net	-	638,318	638,318
Total Assets	\$ 651,560	\$ 638,318	\$ 1,289,878
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 34,550	\$ -	\$ 34,550
Salaries payable	71,433	-	71,433
Loans payable	91,083	-	91,083
Long-term liabilities			
Due within one year	-	13,941	13,941
Due in more than one year	-	55,766	55,766
Total Liabilities	\$ 197,066	\$ 69,707	\$ 266,773
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	454,494	(454,494)	
Total Liabilities and Fund Balance	\$ 651,560		
<u>Net Assets</u>			
Invested in capital assets		\$ 638,318	\$ 638,318
Unrestricted		384,787	384,787
Total Net Assets		\$ 1,023,105	\$ 1,023,105
Reconciliation of the Governmental Fund Balance to Net Assets			
Fund Balance - Governmental Fund			\$ 454,494
Capital assets are reported on the statement of net assets but not in the fund balance sheet.			638,318
Long-term liabilities are reported on the statement of net assets but not in the fund balance sheet.			(69,707)
Net Assets - Governmental Activities			\$ 1,023,105

**PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA**

EXHIBIT 2

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 57,055	\$ -	\$ 57,055
Charges for services	2,064,213	-	2,064,213
Investment earnings	1,619	-	1,619
Miscellaneous	523	-	523
	\$ 2,123,410	\$ -	\$ 2,123,410
Expenditures/Expenses			
Current			
Public safety			
Administration	\$ 292,302	\$ (6,439)	\$ 285,863
Correction and detention	1,309,464	-	1,309,464
Operation	361,188	-	361,188
Depreciation	-	36,180	36,180
	\$ 1,962,954	\$ 29,741	\$ 1,992,695
Net Change in Fund Balance/Net Assets	\$ 160,456	\$ (29,741)	\$ 130,715
Fund Balance/Net Assets - January 1	294,038	598,352	892,390
Fund Balance/Net Assets - December 31	\$ 454,494	\$ 568,611	\$ 1,023,105

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

Net Change in Fund Balance	\$ 160,456
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. PLYP had no capital outlay in 2004. The adjustment is for depreciation expense.	(36,180)
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. The adjustment is the change in compensated absences payable.	6,439
Change in Net Assets of Governmental Activities	\$ 130,715

**PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA**

EXHIBIT 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 48,000	\$ 48,000	\$ 57,055	\$ 9,055
Charges for services	1,868,435	1,868,435	2,064,213	195,778
Investment earnings	-	-	1,619	1,619
Miscellaneous	-	-	523	523
Total Revenues	\$ 1,916,435	\$ 1,916,435	\$ 2,123,410	\$ 206,975
Expenditures				
Current				
Public safety				
Administration	\$ 277,174	\$ 277,174	\$ 292,302	\$ (15,128)
Corrections and detention	1,313,129	1,313,129	1,309,464	3,665
Operations	360,750	360,750	361,188	(438)
Total Expenditures	\$ 1,951,053	\$ 1,951,053	\$ 1,962,954	\$ (11,901)
Net Change in Fund Balance	\$ (34,618)	\$ (34,618)	\$ 160,456	\$ 195,074
Fund Balance - January 1	294,038	294,038	294,038	-
Fund Balance - December 31	\$ 294,038	\$ 259,420	\$ 454,494	\$ 195,074

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**PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA**

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

1. Summary of Significant Accounting Policies

Prairie Lakes Youth Programs' (PLYP) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by PLYP are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- A Management's Discussion and Analysis section providing an analysis of PLYP's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of PLYP's activities.

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

A. Financial Reporting Entity

The Prairie Lakes Detention Center was established May 17, 1990, by a joint powers agreement among Chippewa, Kandiyohi, Lac qui Parle, Swift, and Yellow Medicine Counties, pursuant to Minn. Stat. § 471.59. In 2004, it changed its name to Prairie Lakes Youth Programs. PLYP provides detention and correction services to juveniles under the jurisdiction of the counties which are parties to the agreement and any other Minnesota county that requests it.

**PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

The management of PLYP is vested in a Joint Powers Board, which is composed of one County Commissioner from each participating county. An Advisory Board has also been established. No single member county retains control over the operations or has oversight responsibility for PLYP.

B. Basic Financial Statements

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

**PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Reconciliation of Government-Wide and Fund Financial Statements

The financial statements include an adjustments column to reconcile the General Fund to the governmental activities. The details of the adjustments are:

Balance Sheet to Statement of Net Assets

Amounts reported for governmental activities are different from those reported in the General Fund because capital assets, net of depreciation, of \$638,318 are not financial resources and, therefore, are not reported in the General Fund. Long-term liabilities of \$69,707, relating to compensated absences, are not due and payable within the current period and, therefore, not reported in the fund.

E. Assets, Liabilities, and Net Assets

1. Assets

Cash and Deposits

PLYP has a checking and a savings account as of year-end.

Due From Other Governments

Due from other governments are receivables from the counties which are parties to the joint powers agreement, from other Minnesota counties for detention and correction services to juveniles provided on a fee-for-service basis, and from the state for the Juvenile Accountability Block Grant. In 2004, PLYP began offering a new program to help reform sex offenders. This program is provided on a fee-for-service basis only. Amounts not received in cash within 60 days of year-end are offset with deferred revenue.

Capital Assets

Capital assets, which consist of leasehold improvements, are reported in the governmental activities column in the government-wide financial statements. Capital assets are recorded at historical cost.

**PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets

1. Assets

Capital Assets (Continued)

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.

Leasehold improvements of PLYP are depreciated using the straight-line method over the estimated useful lives:

<u>Assets</u>	<u>Years</u>
Leasehold improvements	20 - 25

2. Liabilities

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.

3. Net Assets

The invested in capital assets represents the accumulated value of the capital assets of PLYP.

The unrestricted net assets represent the accumulated earnings of PLYP.

**PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets (Continued)

4. Budgetary Information

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

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

5. Restatement

PLYP implemented GASB Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. Implementation of this new standard required PLYP to change the format and contents of the financial statements. Implementation of the new standard required fund balance to be restated as net assets.

2. Detailed Notes

A. Assets

Cash and Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize PLYP to designate a depository for public funds and to invest in certificates of deposit. Minnesota statutes require that all deposits be covered by insurance, surety bond, or collateral.

At December 31, 2004, PLYP's bank deposits were \$474,100. The carrying value of these deposits on PLYP's books was \$452,789.

**PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA**

2. Detailed Notes

A. Assets

Cash and Deposits (Continued)

Following is a summary of the December 31, 2004, insurance and collateral as it relates to PLYP's custodial credit risk for its deposits.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by PLYP or its agent in PLYP's name	\$ 124,799
Collateralized with securities held by the pledging financial institution's trust department or agent in PLYP's name	325,000
Uncollateralized	<u>24,301</u>
Total	<u>\$ 474,100</u>

PLYP had no investments at December 31, 2004.

Due From Other Governments

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

Local	\$ 179,821
State	<u>18,950</u>
Total	<u>\$ 198,771</u>

PYLP did not have any amounts due from other governments scheduled to be collected beyond one year.

**PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA**

2. Detailed Notes

A. Assets (Continued)

Capital Assets

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

	Beginning Balance (Restated)	Increase	Decrease	Ending Balance
Capital assets depreciated				
Leasehold improvements	\$ 904,501	\$ -	\$ -	\$ 904,501
Machinery, furniture, and equipment	59,250	-	59,250	-
Total capital assets depreciated	\$ 963,751	\$ -	\$ 59,250	\$ 904,501
Less: accumulated depreciation for				
Leasehold improvements	\$ 230,003	\$ 36,180	\$ -	\$ 266,183
Machinery, furniture, and equipment	59,250	-	59,250	-
Total accumulated depreciation	\$ 289,253	\$ 36,180	\$ 59,250	\$ 266,183
Total Capital Assets - Net	\$ 674,498	\$ (36,180)	\$ -	\$ 638,318

The beginning capital assets were restated by the addition of accumulated depreciation as of December 31, 2003, related to PLYP implementing GASB Statement 34.

B. Liabilities

Employee Benefits

Employees are granted vacation in varying amounts based on their length of service. Vacation leave accrual varies from 12 to 28 days per year. Sick leave accrual is 12 to 18 days per year. PLYP pays unused, accumulated vacation to employees upon termination. Unused, accumulated vacation is accrued as compensated absences. Sick leave, valued at \$170,341 at December 31, 2004, and not reported in the financial statements, is available to employees in the event of illness-related absences and is not paid to them at termination.

**PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA**

2. Detailed Notes

B. Liabilities (Continued)

Long-Term Debt - Compensated Absences

Changes in PLYP's compensated absences for the year ended December 31, 2004, are:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 63,268	\$ 64,753	\$ 58,314	\$ 69,707	\$ 13,941

Operating Lease

PLYP is committed under an operating lease for the rental of facilities through June 30, 2005. PLYP renewed the lease for an additional three months. The building that PLYP is leasing has been sold, and PLYP is anticipating the signing of a new lease. Lease expenditures for the facilities for the year ended December 31, 2004, were \$132,460. The scheduled lease payments through June 30, 2005, were \$73,599.

3. Employee Retirement Systems and Pension Plans

A. Plan Description

All full-time and certain part-time employees of PLYP 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, the Public Employees Police and Fire 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 police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates are covered by the Public Employees Correctional Fund.

**PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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 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 of service 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 Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all PERA members whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund 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, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the web 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.

**PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA**

3. Employee Retirement Systems and Pension Plans (Continued)

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. PLYP 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 Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

PLYP is required to contribute 8.75 percent of annual covered payroll.

PLYP's contributions for the years ending December 31, 2004, 2003, and 2002, were \$101,822, \$101,300, and \$115,802, respectively, equal to the contractually required contributions for each year as set by state statute.

4. Summary of Significant Contingencies and Other Items

Risk Management

PLYP 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. PLYP 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. PLYP purchases commercial insurance for other risks of loss. There were no significant reductions in insurance from the prior year or settlements in excess of insurance coverage for any of the past three years.

The Workers' Compensation Division of the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess PLYP in a method and amount to be determined by the MCIT.

**PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

Risk Management (Continued)

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

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**PRAIRIE LAKES YOUTH PROGRAMS
WILLMAR, MINNESOTA**

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

I. INTERNAL CONTROL

ITEM ARISING THIS YEAR

04-1 Capital Asset Records

Our review of capital assets disclosed that Prairie Lakes Youth Programs (PLYP) has not taken a physical inventory of capital assets for several years. Additions to fixed asset records were made when capitalized purchases occurred. However, due to the absence of a physical inventory, PLYP has no way of knowing when items need to be removed from the capital assets. Thus, there have been few, if any, deductions made to the capital asset records over the past few years.

We recommend a physical inventory be taken and compared to the capital asset inventory records. Any items on the capital asset inventory records that have been disposed of should be deleted, unrecorded assets should be added at the original cost or estimated cost of the asset, and accumulated depreciation should be deleted or recorded accordingly.

We also recommend that PLYP continue to approve capital asset policies. The policies should include such items as:

- capitalization thresholds setting the minimum dollar amount and useful life for an item to be capitalized rather than expensed,
- useful lives for depreciating various classes of assets,
- the method of depreciation to use,
- guidance on what types of disbursements should be capitalized and what types should be expensed in the current year,
- requirement for periodic inventories of capital assets to be compared with the detailed records, and
- guidance on disposing of obsolete and fully-depreciated unused assets.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

04-2 Deposits in Excess of Collateral

Depository balances at Heritage Bank of Willmar exceeded the amount of Federal Deposit Insurance Corporation coverage and collateral pledged by \$24,301 at December 31, 2004.

Minn. Stat. § 118A.03, subd. 3, requires that, to the extent that funds deposited are in excess of available federal deposit insurance, “. . . the collateral computed at its market value shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the business day.”

We recommend that PLYP maintain adequate levels of collateral as required by statute.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

01-1 Repurchase Agreement Investments

PLYP had all of its investments in repurchase agreements. The Governmental Accounting Standards Board developed a custodial risk classification system to inform public entities of the custodial risk associated with repurchase agreements and other investments. The manner in which PLYP held these repurchase agreements was classified in risk category number 3, the riskiest category. As of December 31, 2004, PLYP had divested itself of the investments in repurchase agreements.

We recommend that PLYP develop an investment policy and address the issues of portfolio asset allocation as well as acceptable credit and custodial risks for investment.



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PATRICIA ANDERSON
STATE AUDITOR

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Joint Powers Board
Prairie Lakes Youth Programs

We have audited the financial statements of the governmental activities and the major fund of the Prairie Lakes Youth Programs (PLYP) as of and for the year ended December 31, 2004, and have issued our report thereon dated August 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

The management of PLYP 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 PLYP's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal

control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect PLYP's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 04-1.

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

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 with public indebtedness because PLYP had no bonded debt transactions.

The results of our tests indicate that, for the items tested, PLYP complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 04-2.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 23, 2005