

# 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, 2013 AND 2014

## **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 150 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 700 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, 2013 and 2014**



**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  
2014**

	Position	County
<b>Joint Powers Board</b>		
Randy Neumann		Todd County
Gary Kneisel		Todd County
Rodney Erickson		Todd County
David Kircher		Todd County
Barb Becker		Todd County
James Hofer		Wadena County
Rodney Bounds		Wadena County
Bill Stearns		Wadena County
Ron Noon		Wadena County
Dave Hillukka		Wadena County
<b>Executive Committee</b>		
David Kircher	Vice Chair	Todd County
Barb Becker		Todd County
Bill Stearns		Wadena County
James Hofer	Chair	Wadena County
Honorable Sally I. Robertson		Todd and Wadena Counties
Naomi Moyer		Wadena County
Jane Gustafson		Todd County
<b>Community Corrections Advisory Board</b>		
Naomi Moyer	Citizen Member	
Gail Honek	Citizen Member	
Gaylord Saetre	Citizen Member	
Connie Nelson	Victim Services	
Nora Carrillo-de Montanez	Ethnic Minorities	
Mark Hepokoski	Citizen Member	
David Kircher	Todd County Commissioner	
Barb Becker	Todd County Commissioner	
Honorable Sally I. Robertson	District Court Judge	
Jane Gustafson	Prosecuting Attorney (T)	
Kyra Ladd	Prosecuting Attorney (W)	
Gregory Peters	Public Defender (T)	
Ryan Ries	Public Defender (W)	
Matt Gottschalk	Police Chief	
H. Michael Carr, Jr.	Wadena Co. Sheriff	
Don Asmus	Todd Co. Sheriff	
Cindy Pederson	Health Professional (W)	
Mike Willie	Social Services Professional	
Patrick Sutlief	Educational Administrator	
Katherine Langer	Correctional Administrator	
Bill Stearns	Wadena County Commissioner	
James Hofer	Wadena County Commissioner	
Mark Rolloff	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  
Long Prairie, Minnesota

### Report on the Financial Statements

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, 2013 and 2014, and the related notes to the financial statements, which collectively comprise TWCC's basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to TWCC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TWCC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***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, 2013 and 2014, and the respective changes in financial position thereof and the budgetary comparisons of the General Fund for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter - Change in Accounting Principle***

As discussed in Note 1 to the financial statements, in 2013, TWCC adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

January 19, 2016

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013 AND 2014  
(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, 2013 and 2014. 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 2013, assets exceeded liabilities by \$467,482 (Exhibit 1), of which \$76,865 is invested in capital assets, leaving unrestricted net position of \$390,617.
- In 2014, assets exceeded liabilities by \$368,400 (Exhibit 4), of which \$62,700 is invested in capital assets, leaving unrestricted net position of \$305,700.
- Total net position decreased from \$467,482 in 2013 to \$368,400 in 2014, a decrease of \$99,082, or 21.2 percent.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements. TWCC's basic financial statements consist of two statements that combine government-wide financial statements and fund financial statements, a budgetary comparison statement for the General Fund, and notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

**Fund financial statements.** The first column of each of the first two statements presents governmental fund data. These columns focus on how money flows in and out and the balances left at year-end that are available for spending. They are reported using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. These columns provide a detailed short-term view of the operations and the basic services provided. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs. We reconcile the relationship (or differences) between governmental funds and governmental activities (reported in the third column) in the center column of each statement.

**Government-wide financial statements.** The third column in each statement presents the governmental activities' Statement of Net Position 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 position 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 position serves as a useful indicator of financial position. TWCC's assets exceeded liabilities by \$467,482 and \$368,400 at December 31, 2013 and 2014, respectively. The largest portion of TWCC's net position reflects current assets.

	<b>Net Position</b>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Assets</b>			
Current and other assets	\$ 563,274	\$ 633,141	\$ 695,134
Capital assets	<u>62,700</u>	<u>76,865</u>	<u>104,345</u>
Total Assets	<u>\$ 625,974</u>	<u>\$ 710,006</u>	<u>\$ 799,479</u>
<b>Liabilities</b>			
Current liabilities	\$ 100,102	\$ 97,037	\$ 87,913
Noncurrent liabilities	<u>157,472</u>	<u>145,487</u>	<u>137,108</u>
Total Liabilities	<u>\$ 257,574</u>	<u>\$ 242,524</u>	<u>\$ 225,021</u>
<b>Net Position</b>			
Investment in capital assets	\$ 62,700	\$ 76,865	\$ 104,345
Unrestricted	<u>305,700</u>	<u>390,617</u>	<u>470,113</u>
Total Net Position	<u>\$ 368,400</u>	<u>\$ 467,482</u>	<u>\$ 574,458</u>

## Governmental Activities

TWCC's activities during 2013 decreased net position by \$106,976, or 18.6 percent. In 2014, net position decreased by \$99,082, or 21.2 percent. Key elements in these decreases in net position are as follows:

	Changes in Net Position		
	2014	2013	2012
Revenues			
Intergovernmental	\$ 1,437,016	\$ 1,370,415	\$ 1,414,352
Charges for services	53,116	39,392	48,276
Miscellaneous	19,603	29,190	41,486
Total Revenues	\$ 1,509,735	\$ 1,438,997	\$ 1,504,114
Expenses			
Public safety	1,608,817	1,545,973	1,536,980
Net Change in Net Position	\$ (99,082)	\$ (106,976)	\$ (32,866)
Net Position - January 1	467,482	574,458	607,324
Net Position - December 31	\$ 368,400	\$ 467,482	\$ 574,458

## 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 \$572,476 and \$502,540 at December 31, 2013 and 2014, respectively.

Revenues for TWCC's General Fund decreased by \$65,117 from 2012 to 2013, while total expenditures increased by \$8,993 during the same period. From 2013 to 2014, revenues for TWCC's General Fund increased by \$70,738, while total expenditures increased by \$62,844.

As shown in the Statement of Revenues, Expenditures, and Changes in Fund Balance (Exhibit 2) for 2013, intergovernmental revenue totaled \$1,370,415, or 95.2 percent, of total revenues. For 2014, intergovernmental revenue totaled \$1,437,016 (Exhibit 5), an increase of \$66,601 over 2013, and accounted for 95.2 percent of total revenues.

## **General Fund Budgetary Highlights**

The budgeted expenditures for TWCC decreased by \$10,010 in 2013 and increased by \$78,152 in 2014. 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, 2013, totaled \$76,865, a decrease of \$27,480, or 26.3 percent, from 2012. In 2014, depreciable capital assets, net of accumulated depreciation, decreased by \$14,165, or 18.4 percent, to \$62,700 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 2013 or 2014.

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

TWCC adopted the 2015 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 the same through June 2016. 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 POSITION  
DECEMBER 31, 2013**

	<b>General Fund</b>	<b>Reconciliation</b>	<b>Governmental Activities</b>
<b><u>Assets</u></b>			
<b>Current assets</b>			
Cash and pooled investments	\$ 530,172	\$ -	\$ 530,172
Petty cash and change funds	100	-	100
Due from other governments	102,869	-	102,869
<b>Noncurrent assets</b>			
Depreciable capital assets - net	-	76,865	76,865
<b>Total Assets</b>	<b>\$ 633,141</b>	<b>\$ 76,865</b>	<b>\$ 710,006</b>
 <b><u>Liabilities and Fund Balance/Net Position</u></b>			
<b>Current liabilities</b>			
Accounts payable	\$ 10,979	\$ -	\$ 10,979
Salaries payable	49,686	-	49,686
Compensated absences	-	36,372	36,372
<b>Noncurrent liabilities</b>			
Compensated absences	-	145,487	145,487
<b>Total Liabilities</b>	<b>\$ 60,665</b>	<b>\$ 181,859</b>	<b>\$ 242,524</b>
<b>Fund Balance</b>			
Unassigned	572,476	<b>\$ (572,476)</b>	
<b>Net Position</b>			
Investment in capital assets		\$ 76,865	\$ 76,865
Unrestricted		390,617	390,617
<b>Total Net Position</b>		<b>\$ 467,482</b>	<b>\$ 467,482</b>
<b>Total Liabilities and Fund Balance/Net Position</b>	<b>\$ 633,141</b>	<b>\$ 76,865</b>	<b>\$ 710,006</b>

**Reconciliation of the Governmental Fund Balance to Net Position**

**Fund Balance - General Fund** **\$ 572,476**

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund. 76,865

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund. (181,859)

**Net Position - Governmental Activities** **\$ 467,482**

**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, 2013**

	<b>General Fund</b>	<b>Reconciliation</b>	<b>Governmental Activities</b>
<b>Revenues</b>			
Intergovernmental	\$ 1,370,415	\$ -	\$ 1,370,415
Charges for services	39,392	-	39,392
Miscellaneous	29,190	-	29,190
	<b>\$ 1,438,997</b>	<b>\$ -</b>	<b>\$ 1,438,997</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
Public safety	1,508,019	37,954	1,545,973
	<b>\$ (69,022)</b>	<b>\$ (37,954)</b>	<b>\$ (106,976)</b>
<b>Net Change in Fund Balance/Net Position</b>			
<b>Fund Balance/Net Position - January 1</b>	<b>641,498</b>	<b>(67,040)</b>	<b>574,458</b>
<b>Fund Balance/Net Position - December 31</b>	<b>\$ 572,476</b>	<b>\$ (104,994)</b>	<b>\$ 467,482</b>
 <b>Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Governmental Activities Statement of Activities</b>			
<b>Net Change in Fund Balance</b>			<b>\$ (69,022)</b>
 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.			
Disposal of capital assets		\$ (10,800)	
Current year depreciation		(16,680)	(27,480)
 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.			
			(10,474)
<b>Change in Net Position of Governmental Activities</b>			<b>\$ (106,976)</b>

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

*EXHIBIT 3*

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<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	\$ 863,584	\$ 863,584	\$ 830,497	\$ (33,087)
Minnesota Department of Revenue	-	-	4,177	4,177
Minnesota Department of Public Safety	82,030	82,030	82,030	-
Local	663,711	663,711	453,711	(210,000)
Charges for services	-	-	39,392	39,392
Miscellaneous	-	-	29,190	29,190
<b>Total Revenues</b>	<b>\$ 1,609,325</b>	<b>\$ 1,609,325</b>	<b>\$ 1,438,997</b>	<b>\$ (170,328)</b>
<b>Expenditures</b>				
<b>Current</b>				
Public safety	1,501,449	1,501,449	1,508,019	(6,570)
<b>Net Change in Fund Balance</b>	<b>\$ 107,876</b>	<b>\$ 107,876</b>	<b>\$ (69,022)</b>	<b>\$ (176,898)</b>
<b>Fund Balance - January 1</b>	<b>641,498</b>	<b>641,498</b>	<b>641,498</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 749,374</b>	<b>\$ 749,374</b>	<b>\$ 572,476</b>	<b>\$ (176,898)</b>

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

**EXHIBIT 4**

**GENERAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

	<b>General Fund</b>	<b>Reconciliation</b>	<b>Governmental Activities</b>
<b><u>Assets</u></b>			
<b>Current assets</b>			
Cash and pooled investments	\$ 406,765	\$ -	\$ 406,765
Petty cash and change funds	100	-	100
Due from other governments	156,409	-	156,409
<b>Noncurrent assets</b>			
Depreciable capital assets - net	-	62,700	62,700
<b>Total Assets</b>	<b>\$ 563,274</b>	<b>\$ 62,700</b>	<b>\$ 625,974</b>
 <b><u>Liabilities and Fund Balance/Net Position</u></b>			
<b>Current liabilities</b>			
Accounts payable	\$ 6,342	\$ -	\$ 6,342
Salaries payable	54,392	-	54,392
Compensated absences	-	39,368	39,368
<b>Noncurrent liabilities</b>			
Compensated absences	-	157,472	157,472
<b>Total Liabilities</b>	<b>\$ 60,734</b>	<b>\$ 196,840</b>	<b>\$ 257,574</b>
<b>Fund Balance</b>			
Unassigned	502,540	<b>\$ (502,540)</b>	
<b>Net Position</b>			
Investment in capital assets		\$ 62,700	\$ 62,700
Unrestricted		305,700	305,700
<b>Total Net Position</b>		<b>\$ 368,400</b>	<b>\$ 368,400</b>
<b>Total Liabilities and Fund Balance/Net Position</b>	<b>\$ 563,274</b>	<b>\$ 62,700</b>	<b>\$ 625,974</b>

**Reconciliation of the Governmental Fund Balance to Net Position**

**Fund Balance - General Fund** **\$ 502,540**

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund. 62,700

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund. (196,840)

**Net Position - Governmental Activities** **\$ 368,400**

**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, 2014**

	General Fund	Reconciliation	Governmental Activities
<b>Revenues</b>			
Intergovernmental	\$ 1,437,016	\$ -	\$ 1,437,016
Charges for services	53,116	-	53,116
Miscellaneous	19,603	-	19,603
<b>Total Revenues</b>	<b>\$ 1,509,735</b>	<b>\$ -</b>	<b>\$ 1,509,735</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
Public safety	1,579,671	29,146	1,608,817
<b>Net Change in Fund Balance/Net Position</b>	<b>\$ (69,936)</b>	<b>\$ (29,146)</b>	<b>\$ (99,082)</b>
<b>Fund Balance/Net Position - January 1</b>	<b>572,476</b>	<b>(104,994)</b>	<b>467,482</b>
<b>Fund Balance/Net Position - December 31</b>	<b>\$ 502,540</b>	<b>\$ (134,140)</b>	<b>\$ 368,400</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** **\$ (69,936)**

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Current year depreciation (14,165)

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.

(14,981)

**Change in Net Position of Governmental Activities**

**\$ (99,082)**

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

*EXHIBIT 6*

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<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	\$ 864,317	\$ 864,317	\$ 885,425	\$ 21,108
Minnesota Department of Revenue	-	-	4,177	4,177
Minnesota Department of Public Safety	82,028	82,028	82,028	-
Local	816,413	816,413	465,386	(351,027)
Charges for services	-	-	53,116	53,116
Miscellaneous	-	-	19,603	19,603
<b>Total Revenues</b>	<b>\$ 1,762,758</b>	<b>\$ 1,762,758</b>	<b>\$ 1,509,735</b>	<b>\$ (253,023)</b>
<b>Expenditures</b>				
<b>Current</b>				
Public safety	1,579,601	1,579,601	1,579,671	(70)
<b>Net Change in Fund Balance</b>	<b>\$ 183,157</b>	<b>\$ 183,157</b>	<b>\$ (69,936)</b>	<b>\$ (253,093)</b>
<b>Fund Balance - January 1</b>	<b>572,476</b>	<b>572,476</b>	<b>572,476</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 755,633</b>	<b>\$ 755,633</b>	<b>\$ 502,540</b>	<b>\$ (253,093)</b>

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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2014

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1. Summary of Significant Accounting Policies

Todd-Wadena Community Corrections' (TWCC) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the years ended December 31, 2013 and 2014. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by TWCC are discussed below.

Changes in Accounting Principle

During 2013, TWCC implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities.

Restatements of December 31, 2012, net position or fund balance were not required as a result of this change in accounting principle.

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 4.B.

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

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1. Summary of Significant Accounting Policies (Continued)

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.

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: investment in capital assets and unrestricted net position.

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.

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

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1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Position or Equity

1. Cash Deposits

Cash is on deposit with Todd County.

2. Due From Other Governments

Due from other governments are grant-related receivables.

3. Capital Assets

Capital assets, which consist of buildings, equipment, and automobiles 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 following estimated useful lives:

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

4. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination pay and other employees who are 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 Position or Equity (Continued)

5. Classification of Net Position

Net position in the government-wide statements is classified in the following categories:

Investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt, if any, attributed to the acquisition, construction, or improvement of the assets.

Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted - the amount of net position that does not meet the definition of restricted or investment in capital assets.

6. Classification of Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which TWCC is bound to observe constraints imposed upon the use of the resources reported in the General Fund. These classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - amounts for which constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

6. Classification of Fund Balance (Continued)

Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of TWCC's Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned - amounts TWCC intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.

Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications.

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.

8. Budgetary Information

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)

E. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for TWCC's calendar year 2015. TWCC has not yet determined the financial statement impact of adopting this new standard.

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.

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

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1. Summary of Significant Accounting Policies

F. Revenues and Expenditures

1. Revenues

Intergovernmental (Continued)

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.

2. Detailed Notes

A. Assets

1. Deposits

Cash transactions are administered by the Todd County Auditor/Treasurer who is, according to Minn. Stat. §§ 118A.02 and 118A.04, authorized to deposit cash in financial institutions designated by the County Board. The types of investments available to the County are authorized by Minn. Stat. §§ 118A.04 and 118A.05. 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, 2013 or 2014.

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

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2. Detailed Notes

A. Assets

1. Deposits (Continued)

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, 2013 and 2014, Todd County's deposits were fully insured and collateralized.

2. Receivables

Amounts due from other governments consisted of state grants in the amount of \$102,869 at December 31, 2013, and \$156,409 at December 31, 2014.

TWCC did not have any receivables scheduled to be collected beyond one year as of December 31, 2013 or 2014.

3. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Buildings	\$ 82,000	\$ -	\$ 27,000	\$ 55,000
Office equipment	42,293	-	-	42,293
Automotive	155,177	-	-	155,177
Total capital assets depreciated	<u>\$ 279,470</u>	<u>\$ -</u>	<u>\$ 27,000</u>	<u>\$ 252,470</u>
Less: accumulated depreciation for				
Buildings	\$ 31,325	\$ 1,375	\$ 16,200	\$ 16,500
Office equipment	38,959	834	-	39,793
Automotive	104,841	14,471	-	119,312
Total accumulated depreciation	<u>\$ 175,125</u>	<u>\$ 16,680</u>	<u>\$ 16,200</u>	<u>\$ 175,605</u>
Total Capital Assets Depreciated, Net	<u>\$ 104,345</u>	<u>\$ (16,680)</u>	<u>\$ 10,800</u>	<u>\$ 76,865</u>

Depreciation expense of \$16,680 was charged to TWCC's public safety function for the year ended December 31, 2013.

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

2. Detailed Notes

A. Assets

3. Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings	\$ 55,000	\$ -	\$ -	\$ 55,000
Office equipment	42,293	-	-	42,293
Automotive	155,177	-	-	155,177
Total capital assets depreciated	\$ 252,470	\$ -	\$ -	\$ 252,470
Less: accumulated depreciation for				
Buildings	\$ 16,500	\$ 1,375	\$ -	\$ 17,875
Office equipment	39,793	834	-	40,627
Automotive	119,312	11,956	-	131,268
Total accumulated depreciation	\$ 175,605	\$ 14,165	\$ -	\$ 189,770
Total Capital Assets Depreciated, Net	\$ 76,865	\$ (14,165)	\$ -	\$ 62,700

Depreciation expense of \$14,165 was charged to TWCC's public safety function for the year ended December 31, 2014.

B. Liabilities

1. Employee Benefits

Employees are granted vacation in varying amounts based on their length of service. Vacation leave accrual varies from 12 to 27 days per year. Sick leave accrual is 12 days per year. TWCC pays unused accumulated vacation to employees upon termination. Unused accumulated vacation is accrued as compensated absences. Sick leave, valued at \$283,916 at December 31, 2013, and \$299,787 at December 31, 2014, 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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2. Detailed Notes

B. Liabilities (Continued)

2. Changes in Long-Term Liabilities

Long-term liability activity for the years ended December 31, 2013 and 2014, was as follows:

<u>2013</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 171,385	\$ 10,474	\$ -	\$ 181,859	\$ 36,372
<u>2014</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 181,859	\$ 14,981	\$ -	\$ 196,840	\$ 39,368

3. Defined Benefit Pension Plan

Plan Description

All full-time and certain part-time employees of TWCC are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after five years of credited service.

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. 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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3. Defined Benefit Pension Plan

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 remaining year. 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 remaining 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 General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund. That report may be obtained on the internet at [www.mnpera.org](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.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature.

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

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3. Defined Benefit Pension Plan

Funding Policy (Continued)

TWCC makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014.

In 2013 and 2014, TWCC was required to contribute the following percentages of annual covered payroll:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25

TWCC's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund were:

<u>2014</u>	<u>2013</u>	<u>2012</u>
\$ 69,524	\$ 67,693	\$ 64,137

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers).

4. Summary of Significant Contingencies and Other Items

A. Risk Management

TWCC is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. TWCC has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT) to protect against liabilities from workers' compensation and property and casualty.

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

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4. Summary of Significant Contingencies and Other Items

A. 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 \$470,000 per claim in 2013, \$480,000 per claim in 2014, and \$490,000 per claim in 2015. Should MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess TWCC in a method and amount to be determined by MCIT.

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

TWCC purchases commercial insurance for other risks of loss. There were no significant reductions in insurance in either 2013 or 2014 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.

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

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4. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Wadena County Family Service Collaborative (Continued)

Upon termination of the Collaborative, all property and remaining funds will be divided among the remaining members. Distribution will be determined on the basis of number of years of participation by each member and the proportionate contribution paid pursuant to the agreement of the Collaborative members.

Financing is provided by state grants and appropriations from its members. Wadena County, in an agent capacity, reports the cash transactions of the Collaborative as an investment trust fund on the County's financial statements. TWCC contributed \$500 annually to the Collaborative for 2013 and 2014.

Todd County Family Service Collaborative

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

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

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 2013 and 2014, 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, 2013 AND 2014**

**I. INTERNAL CONTROL OVER FINANCIAL REPORTING**

**PREVIOUSLY REPORTED ITEM NOT RESOLVED**

Finding 1996-001

**Segregation of Duties**

**Criteria:** A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

**Condition:** The limited number of staff of Todd-Wadena Community Corrections (TWCC) results in a lack of segregation of duties necessary to ensure adequate internal accounting control. There are inherent risks in safeguarding TWCC's assets and the proper recording of its financial activity.

**Context:** Due to the limited number of staff within TWCC, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of TWCC; however, TWCC's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in one individual is not desirable from an accounting point of view.

**Effect:** Inadequate segregation of duties increases the risk of errors or irregularities not being detected timely.

**Cause:** TWCC informed us that due to the available resources, it would not be able to hire additional qualified accounting staff to more adequately segregate the duties.

**Recommendation:** We recommend that the TWCC Executive Committee continue to be aware of the problem and develop oversight procedures to ensure adequate controls over cash and other items.

Client's Response:

*Regarding segregation of duties, as we have responded in the past, due to the limited number of office personnel within our agency, segregation of accounting functions necessary to ensure adequate internal accounting controls is very difficult. It is our understanding that in smaller operations such as ours, this situation is not unusual. We continue to do our best to segregate duties such as when funds are received from an offender in any of our offices, the staff person receiving the money provides the offender with a receipt and forwards the money to our business office in Long Prairie. The money is again receipted and placed in the Community Corrections bank account. At the end of the month, the total receipts are forwarded to the Todd County Auditor's Office. The Auditor's Office provides a copy of the month's receipts to the Administrative Assistant in the Long Prairie office who then forwards copies to the secretaries in all the offices. The Executive Committee of Todd-Wadena Community Corrections continues to be made aware of this finding and is aware of the methods we use to address the finding. Beginning in the fall of 2000, we took a further step in addressing the finding by having the Community Corrections Director review the monthly detailed reports of receipts and disbursements.*

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

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

PREVIOUSLY REPORTED ITEM RESOLVED

**Audit Adjustments (2012-001)**

An audit adjustment was necessary to remove accumulated depreciation associated with capital asset deletions made throughout the year.

**Resolution**

No audit adjustments were necessary in 2013 or 2014. TWCC eliminated the accumulated depreciation on capital assets disposed of during 2013 in which the capital asset support was provided to the auditors.

## II. OTHER ITEM FOR CONSIDERATION

### GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of TWCC's government-wide statement of financial position. TWCC's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that, if material, will be reported in TWCC's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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### COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND/OR MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS

Joint Powers Board  
Todd-Wadena Community Corrections  
Long Prairie, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America, 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, 2013 and 2014, and the related notes to the financial statements, which collectively comprise TWCC's basic financial statements, and have issued our report thereon dated January 19, 2016.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered TWCC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of TWCC's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material

weaknesses may exist that have not been identified. Our audit was also not designed to identify deficiencies in internal control that might be significant deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. This significant deficiency is reported in the Schedule of Findings and Recommendations as item 1996-001.

### **Other Matters**

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 response to the internal control finding identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit TWCC's response and, accordingly, we express no opinion on it.

### **Purpose of This Report**

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

January 19, 2016



REBECCA OTTO  
STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Joint Powers Board  
Todd-Wadena Community Corrections  
Long Prairie, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, 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, 2013 and 2014, and the related notes to the financial statements, which collectively comprise TWCC's basic financial statements and have issued our report thereon dated January 19, 2016.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of TWCC's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness because TWCC had no debt.

In connection with our audit, nothing came to our attention that caused us to believe that TWCC failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding TWCC's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of TWCC and the State Auditor 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

January 19, 2016

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