

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

TODD-WADENA COMMUNITY CORRECTIONS
LONG PRAIRIE, MINNESOTA

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2012

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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

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

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

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

For the Years Ended December 31, 2011 and 2012



**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
2012**

	Position	County
Joint Powers Board		
Randy Neumann		Todd County
Gary Kneisel		Todd County
Gerald Ruda		Todd County
David Kircher		Todd County
Mark Blessing		Todd County
Lane Waldahl		Wadena County
Rodney Bounds		Wadena County
Bill Stearns		Wadena County
Ralph Miller		Wadena County
Dave Hillukka		Wadena County
Executive Committee		
David Kircher	Vice Chair	Todd County
Mark Blessing		Todd County
Bill Stearns		Wadena County
Lane Waldahl	Chair	Wadena County
Honorable Sally I. Robertson		Todd and Wadena Counties
Naomi Moyer		Wadena County
Jane Gustafson		Todd County
Community Corrections Advisory Board		
Naomi Moyer	Citizen Member	
Connie Nelson	Victim Services	
Nora Carrillo-de Montanez	Ethnic Minorities	
Mark Hepokoski	Citizen Member	
David Kircher	Todd County Commissioner	
Mark Blessing	Todd County Commissioner	
Honorable Sally I. Robertson	District Court Judge	
Jane Gustafson	Prosecuting Attorney	
Gregory Peters	Public Defender	
Vacant	Police Chief	
H. Michael Carr, Jr.	Wadena County Sheriff	
Pete Mikkelson	Todd County Sheriff	
Cheryl Schneider	Health Professional	
Frank Sandelin	Social Services Director	
Jim Hofer	Educational Administrator	
Katherine Langer	Correctional Administrator	
Bill Stearns	Wadena County Commissioner	
Lane Waldahl	Wadena County Commissioner	
Darcee Bell	Career Corrections Agent	

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Joint Powers Board
Todd-Wadena Community Corrections

We have audited the accompanying financial statements of the governmental activities and the General Fund of Todd-Wadena Community Corrections (TWCC) as of and for the years ended December 31, 2011 and 2012, 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, 2011 and 2012, and the respective changes in financial position thereof and the budgetary comparisons for the General Fund for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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

July 19, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011 AND 2012
(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, 2011 and 2012. 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 2011, assets exceeded liabilities by \$607,324 (Exhibit 1), of which \$130,417 is invested in capital assets, leaving unrestricted net position of \$476,907.
- In 2012, assets exceeded liabilities by \$574,458 (Exhibit 4), of which \$104,345 is invested in capital assets, leaving unrestricted net position of \$470,113.
- Total net position decreased from \$607,324 in 2011 to \$574,458 in 2012, a decrease of \$32,866, or 5.4 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 \$607,324 and \$574,458 at December 31, 2011 and 2012, respectively. The largest portion of TWCC's net position reflects current assets.

	Net Position		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Current and other assets	\$ 695,134	\$ 701,750	\$ 700,486
Capital assets	<u>104,345</u>	<u>130,417</u>	<u>146,017</u>
Total Assets	<u>\$ 799,479</u>	<u>\$ 832,167</u>	<u>\$ 846,503</u>
Liabilities			
Current liabilities	\$ 87,913	\$ 82,588	\$ 80,792
Noncurrent liabilities	<u>137,108</u>	<u>142,255</u>	<u>129,742</u>
Total Liabilities	<u>\$ 225,021</u>	<u>\$ 224,843</u>	<u>\$ 210,534</u>
Net Position			
Net investment in capital assets	\$ 104,345	\$ 130,417	\$ 146,017
Unrestricted	<u>470,113</u>	<u>476,907</u>	<u>489,952</u>
Total Net Position	<u>\$ 574,458</u>	<u>\$ 607,324</u>	<u>\$ 635,969</u>

Governmental Activities

TWCC's activities during 2011 decreased net position by \$28,645, or 4.5 percent. In 2012, net position decreased by \$32,866, or 5.4 percent. Key elements in these decreases in net position are as follows:

	Changes in Net Position		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenues			
Intergovernmental	\$ 1,414,352	\$ 1,412,804	\$ 1,453,275
Charges for services	48,276	44,199	67,245
Miscellaneous	<u>41,486</u>	<u>34,458</u>	<u>13,850</u>
Total Revenues	\$ 1,504,114	\$ 1,491,461	\$ 1,534,370
Expenses			
Public safety	<u>1,536,980</u>	<u>1,520,106</u>	<u>1,413,359</u>
Net Change in Net Position	\$ (32,866)	\$ (28,645)	\$ 121,011
Net Position - January 1	<u>607,324</u>	<u>635,969</u>	<u>514,958</u>
Net Position - December 31	<u>\$ 574,458</u>	<u>\$ 607,324</u>	<u>\$ 635,969</u>

FINANCIAL ANALYSIS OF TWCC AT THE FUND LEVEL

Governmental Fund

The General Fund, the only governmental fund of TWCC, accounts for the primary operations of TWCC, which provides development, implementation, and operation of correctional programs, probation, and parole to Todd and Wadena Counties. TWCC's General Fund reported a fund balance of \$654,726 and \$641,498 at December 31, 2011 and 2012, respectively.

Revenues for TWCC's General Fund decreased by \$42,909 from 2010 to 2011, while total expenditures increased by \$78,879 during the same period. For 2011 to 2012, revenues for TWCC's General Fund increased by \$12,653, while total expenditures increased by \$28,478.

As shown in the Statement of Revenues, Expenditures, and Changes in Fund Balance (Exhibit 2) for 2011, intergovernmental revenue totaled \$1,412,804, or 94.7 percent, of total revenues. For 2012, intergovernmental revenue totaled \$1,414,352 (Exhibit 5), an increase of \$1,548 over 2011, and accounted for 94 percent of total revenues.

General Fund Budgetary Highlights

TWCC's expenditure budgets, in comparison with the prior year, increased by \$1,491 in 2011 and increased by \$21,262 in 2012. 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, 2011, totaled \$130,417, a decrease of \$15,600, or 10.7 percent, from 2010. In 2012, depreciable capital assets, net of accumulated depreciation, decreased by \$26,072, or 20 percent, to \$104,345 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 2011 or 2012.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

TWCC adopted the 2013 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 2013. 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, 2011**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 585,990	\$ -	\$ 585,990
Petty cash and change funds	100	-	100
Due from other governments	115,660	-	115,660
Noncurrent assets			
Depreciable capital assets - net	-	130,417	130,417
Total Assets	\$ 701,750	\$ 130,417	\$ 832,167
 <u>Liabilities and Fund Balance/Net Position</u>			
Current liabilities			
Accounts payable	\$ 7,285	\$ -	\$ 7,285
Salaries payable	39,739	-	39,739
Compensated absences	-	35,564	35,564
Noncurrent liabilities			
Compensated absences	-	142,255	142,255
Total Liabilities	\$ 47,024	\$ 177,819	\$ 224,843
Fund Balance			
Unassigned	654,726	\$ (654,726)	
Net Position			
Net investment in capital assets		\$ 130,417	\$ 130,417
Unrestricted		476,907	476,907
Total Net Position		\$ 607,324	\$ 607,324
Total Liabilities and Fund Balance/Net Position	\$ 701,750	\$ 130,417	\$ 832,167

Reconciliation of the Governmental Fund Balance to Net Position

Fund Balance - General Fund	\$ 654,726
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.	130,417
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund.	(177,819)
Net Position - Governmental Activities	\$ 607,324

**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, 2011**

	General Fund	Reconciliation	Governmental Activities
Revenues			
Intergovernmental	\$ 1,412,804	\$ -	\$ 1,412,804
Charges for services	44,199	-	44,199
Miscellaneous	34,458	-	34,458
Total Revenues	\$ 1,491,461	\$ -	\$ 1,491,461
Expenditures/Expenses			
Current			
Public safety	1,488,864	31,242	1,520,106
Net Change in Fund Balance/Net Position	\$ 2,597	\$ (31,242)	\$ (28,645)
Fund Balance/Net Position - January 1	652,129	(16,160)	635,969
Fund Balance/Net Position - December 31	\$ 654,726	\$ (47,402)	\$ 607,324

**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 \$ 2,597

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

Current year depreciation (15,600)

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.

(15,642)

Change in Net Position of Governmental Activities **\$ (28,645)**

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

EXHIBIT 3

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental				
State				
Minnesota Department of Corrections	\$ 879,592	\$ 879,592	\$ 872,887	\$ (6,705)
Minnesota Department of Revenue	-	-	4,177	4,177
Minnesota Department of Public Safety	82,028	82,028	82,028	-
Local	624,412	624,412	453,712	(170,700)
Charges for services	-	-	44,199	44,199
Miscellaneous	-	-	34,458	34,458
Total Revenues	\$ 1,586,032	\$ 1,586,032	\$ 1,491,461	\$ (94,571)
Expenditures				
Current				
Public safety	1,490,197	1,490,197	1,488,864	1,333
Net Change in Fund Balance	\$ 95,835	\$ 95,835	\$ 2,597	\$ (93,238)
Fund Balance - January 1	652,129	652,129	652,129	-
Fund Balance - December 31	\$ 747,964	\$ 747,964	\$ 654,726	\$ (93,238)

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

EXHIBIT 4

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 574,389	\$ -	\$ 574,389
Petty cash and change funds	100	-	100
Due from other governments	120,645	-	120,645
Noncurrent assets			
Depreciable capital assets - net	-	104,345	104,345
Total Assets	\$ 695,134	\$ 104,345	\$ 799,479
 <u>Liabilities and Fund Balance/Net Position</u>			
Current liabilities			
Accounts payable	\$ 9,982	\$ -	\$ 9,982
Salaries payable	43,654	-	43,654
Compensated absences	-	34,277	34,277
Noncurrent liabilities			
Compensated absences	-	137,108	137,108
Total Liabilities	\$ 53,636	\$ 171,385	\$ 225,021
Fund Balance			
Unassigned	641,498	\$ (641,498)	
Net Position			
Net investment in capital assets		\$ 104,345	\$ 104,345
Unrestricted		470,113	470,113
Total Net Position		\$ 574,458	\$ 574,458
Total Liabilities and Fund Balance/Net Position	\$ 695,134	\$ 104,345	\$ 799,479

Reconciliation of the Governmental Fund Balance to Net Position

Fund Balance - General Fund	\$ 641,498
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.	104,345
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund.	(171,385)
Net Position - Governmental Activities	\$ 574,458

**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, 2012**

	General Fund	Reconciliation	Governmental Activities
Revenues			
Intergovernmental	\$ 1,414,352	\$ -	\$ 1,414,352
Charges for services	48,276	-	48,276
Miscellaneous	41,486	-	41,486
Total Revenues	\$ 1,504,114	\$ -	\$ 1,504,114
Expenditures/Expenses			
Current			
Public safety	1,517,342	19,638	1,536,980
Net Change in Fund Balance/Net Position	\$ (13,228)	\$ (19,638)	\$ (32,866)
Fund Balance/Net Position - January 1	654,726	(47,402)	607,324
Fund Balance/Net Position - December 31	\$ 641,498	\$ (67,040)	\$ 574,458

**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 **\$ (13,228)**

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

Capital asset expenditures	\$ 63,945	
Disposal of capital assets (carrying value)	(66,683)	
Current year depreciation	(23,334)	(26,072)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. An adjustment was made to expenditures/expenses for the change in compensated absences.

6,434

Change in Net Position of Governmental Activities **\$ (32,866)**

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

EXHIBIT 6

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental				
State				
Minnesota Department of Corrections	\$ 860,486	\$ 860,486	\$ 874,435	\$ 13,949
Minnesota Department of Revenue	-	-	4,177	4,177
Minnesota Department of Public Safety	82,029	82,029	82,028	(1)
Local	703,712	703,712	453,712	(250,000)
Charges for services	-	-	48,276	48,276
Miscellaneous	-	-	41,486	41,486
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 1,646,227	\$ 1,646,227	\$ 1,504,114	\$ (142,113)
Expenditures				
Current				
Public safety	1,511,459	1,511,459	1,517,342	(5,883)
	<hr/>	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance	\$ 134,768	\$ 134,768	\$ (13,228)	\$ (147,996)
Fund Balance - January 1	654,726	654,726	654,726	-
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance - December 31	\$ 789,494	\$ 789,494	\$ 641,498	\$ (147,996)
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**TODD-WADENA COMMUNITY CORRECTIONS
LONG PRAIRIE, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2012**

1. Summary of Significant Accounting Policies

Todd-Wadena Community Correction's (TWCC) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the years ended December 31, 2011 and 2012. 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.

A. Financial Reporting Entity

TWCC was established in 1976 by Todd and Wadena Counties, pursuant to Minn. Stat. ch. 401. TWCC's primary programs and services are to assist member counties in the development, implementation, and operation of correctional programs, probation, and parole.

The management of TWCC is vested in a Joint Powers Board, composed of the five Commissioners from each participating county. Neither county retains control over the operations or has oversight responsibility for TWCC. The Joint Powers Board appoints an executive committee, which has been delegated by the Joint Powers Board all powers and duties necessary for the day-to-day operations.

Todd County acts as fiscal agent for TWCC. TWCC participates in two joint ventures described in Note 5.B.

B. Basic Financial Statements

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

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: net investment in capital assets and unrestricted net position.

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. TWCC considers all revenues as available if collected within 60 days after the end of the current period. Intergovernmental revenue and interest is considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and compensated absences, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is TWCC's policy to use restricted resources first and then unrestricted resources as needed.

D. Assets, Liabilities, and Net 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.

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

1. Summary of Significant Accounting Policies

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

3. Capital Assets

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

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

Capital assets of TWCC are depreciated using the straight-line method over the estimated useful lives:

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

4. Deferred Revenue

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

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination pay and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the governmental activities.

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

1. Summary of Significant Accounting Policies

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

6. Fund Equity and Net Position

TWCC adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended December, 31, 2011. This standard changed fund balance classifications within the fund financial statements. In the fund financial statements, 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 governmental fund. These classifications are as follows:

Nonspendable fund balance cannot be spent because it is either not in spendable form or is 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 fund balance is subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments or constraints imposed by law through constitutional provisions and enabling legislation.

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

Assigned fund balance is what TWCC intends to use for specific purposes that do not meet the criteria to be classified as “restricted” or “committed.” In the General Fund, assigned amounts represent intended uses established by the Executive Committee.

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

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

6. Fund Equity and Net Position (Continued)

Net investment in capital assets represents the accumulated value of the capital assets of TWCC.

Unrestricted net position represents the accumulated earnings of TWCC.

7. Use of Estimates

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

E. Budgetary Data

General Budget Policies

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

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

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.

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

1. Summary of Significant Accounting Policies

F. Revenues and Expenditures

1. Revenues (Continued)

Intergovernmental

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

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

Exchange Transactions

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

2. Expenditures

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

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

2. Stewardship, Compliance, and Accountability

Expenditures in Excess of Budget

The General Fund had expenditures in excess of final budget for the year ended December 31, 2012, as follows:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Public safety	\$ 1,517,342	\$ 1,511,459	\$ 5,883

3. Detailed Notes

A. Assets

1. Deposits

Cash transactions are administered by the Todd County Auditor/Treasurer who is, according to Minn. Stat. §§ 118A.02 and 118A.04, authorized to deposit cash in financial institutions designated by the County Board. Minn. Stat. §§ 118A.04 and 118A.05 authorize the types of investments available to the County. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral. TWCC had no investments through Todd County at December 31, 2011 or 2012.

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, 2011 and 2012, Todd County's deposits were fully insured and collateralized.

2. Receivables

Amounts due from other governments consisted of state grants in the amount of \$115,660 at December 31, 2011, and \$120,645 at December 31, 2012.

TWCC did not have any receivables scheduled to be collected beyond one year as of December 31, 2011 or 2012.

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

3. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings	\$ 171,612	\$ -	\$ -	\$ 171,612
Office equipment	47,593	-	-	47,593
Automotive	123,069	-	-	123,069
Total capital assets depreciated	\$ 342,274	\$ -	\$ -	\$ 342,274
Less: accumulated depreciation for				
Buildings	\$ 47,913	\$ 4,291	\$ -	\$ 52,204
Office equipment	45,848	872	-	46,720
Automotive	102,496	10,437	-	112,933
Total accumulated depreciation	\$ 196,257	\$ 15,600	\$ -	\$ 211,857
Total Capital Assets Depreciated, Net	\$ 146,017	\$ (15,600)	\$ -	\$ 130,417

Depreciation expense of \$15,600 was charged to TWCC's public safety function for the year ended December 31, 2011.

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings	\$ 171,612	\$ -	\$ 89,612	\$ 82,000
Office equipment	47,593	4,168	9,468	42,293
Automotive	123,069	59,777	27,669	155,177
Total capital assets depreciated	\$ 342,274	\$ 63,945	\$ 126,749	\$ 279,470
Less: accumulated depreciation for				
Buildings	\$ 52,204	\$ 2,050	\$ 22,929	\$ 31,325
Office equipment	46,720	1,707	9,468	38,959
Automotive	112,933	19,577	27,669	104,841
Total accumulated depreciation	\$ 211,857	\$ 23,334	\$ 60,066	\$ 175,125
Total Capital Assets Depreciated, Net	\$ 130,417	\$ 40,611	\$ 66,683	\$ 104,345

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

3. Detailed Notes

A. Assets

3. Capital Assets (Continued)

Depreciation expense of \$23,334 was charged to TWCC's public safety function for the year ended December 31, 2012.

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 \$287,840 at December 31, 2011, and \$272,787 at December 31, 2012, is available to employees in the event of illness-related absences, of which 40 percent is paid upon separation.

2. Changes in Long-Term Liabilities

Long-term liability activity for the years ended December 31, 2011 and 2012, was as follows:

2011	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 162,177	\$ 15,642	\$ -	\$ 177,819	\$ 35,564
2012	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 177,819	\$ -	\$ 6,434	\$ 171,385	\$ 34,277

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

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service (five years for those first eligible for membership after June 30, 2010). Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

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

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

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

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. TWCC makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary.

TWCC is required to contribute the following percentages of annual covered payroll in 2011 and 2012:

	<u>2011</u>	<u>2012</u>
General Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	7.25	7.25

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

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

TWCC's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund were:

<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 64,137	\$ 65,696	\$ 59,868

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

5. Summary of Significant Contingencies and Other Items

A. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2011, \$460,000 per claim in 2012 and \$470,000 per claim in 2013. 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.

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

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

TWCC purchases commercial insurance for other risks of loss. There were no significant reductions in insurance in either 2011 or 2012 or settlements in excess of insurance coverage for any of the past three years.

B. Joint Ventures

Wadena County Family Service Collaborative

The Wadena County Family Service Collaborative was established in 1998 under the authority of the Joint Powers Act, pursuant to Minn. Stat. §§ 471.59 and 124D.23. The Collaborative includes Wadena County; Independent School District Nos. 818, 820, 821, 2155, and 2170; Otter Tail-Wadena Community Action Council; and TWCC. The purpose of the Collaborative is to provide coordinated family services and to commit resources to an integrated fund.

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

In the event of a withdrawal from the Collaborative, the withdrawing party must give a 180-day notice. The withdrawing party will remain liable for fiscal obligations incurred prior to the effective date of withdrawal but will incur no additional fiscal liability beyond the effective date of withdrawal. Upon termination of the Collaborative, all property and remaining funds will be divided among the remaining members. Distribution will be determined on the basis of number of years of participation by each member and the proportionate contribution paid pursuant to the agreement of the Collaborative members.

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 2011 and 2012.

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

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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 2011 and 2012, 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, 2011 AND 2012**

FINANCIAL STATEMENT AUDIT--INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 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: It is not unusual for an organization the size of TWCC to be limited in the internal control that management can design and implement into the organization.

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.

ITEM ARISING THIS YEAR

12-1 Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as 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.

Condition: During our audit, we proposed a material audit adjustment which was reviewed and approved by the appropriate staff and is reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of TWCC's internal control.

Context: The inability to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

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

Cause: TWCC staff did not eliminate the accumulated depreciation on capital assets disposed of during 2012 on the capital asset support provided to the auditors.

Recommendation: We recommend that TWCC review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

Client's Response:

- (1) *When Todd-Wadena Community Corrections sells or disposes of any item on the Capital Assets Summary, Bernice will, within 30 days, adjust the item's value on the Capital Assets Summary accordingly. She will then forward to Kathy for review.*
- (2) *On a quarterly basis, Bernice and Kathy will each review the Capital Assets Summary for correctness.*
- (3) *On an annual basis, Bernice will update the Depreciation Schedule according to the information on the Capital Assets Summary, and Kathy will review the updated Depreciation Schedule.*
- (4) *On an annual basis, Kathy will provide the Executive Committee and Joint Powers Board with the updated Capital Assets Summary and Depreciation Schedule for their review.*

PREVIOUSLY REPORTED ITEM(S) RESOLVED

Preparation of Financial Statements (06-1)

TWCC needed to broaden its participation in the preparation of its financial statements and not rely so extensively on its external auditors for financial reporting.

Resolution

TWCC provides a general ledger, accruals, balances for the full accrual journal entries, and other supporting schedules necessary for preparing fund level and government-wide financial statements. TWCC has improved its understanding and preparation of underlying accounting data used in the preparation of the financial statements.

Other Postemployment Benefits (OPEB) (10-1)

TWCC had not had an actuarial study performed to determine its OPEB liability and did not report its OPEB liability in the governmental activities or the change in its net OPEB obligation.

Resolution

Todd County had an actuarial study done for January 1, 2012, that separated out the liability for TWCC. From this study, it was determined that TWCC's OPEB liability is immaterial, and management has decided to not report it again for 2011 and 2012.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Joint Powers Board
Todd-Wadena Community Corrections

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, 2011 and 2012, and the related notes to the financial statements, which collectively comprise TWCC's basic financial statements, and have issued our report thereon dated July 19, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the governmental activities and the General Fund of TWCC as of and for the years ended December 31, 2011 and 2012, in accordance with auditing standards generally accepted in the United States of America, we considered TWCC's internal control over financial reporting as a basis for designing 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.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness and a deficiency that we consider to be a significant deficiency.

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. We consider the deficiency listed in the Schedule of Findings and Recommendations as item 12-1 to be a material weakness.

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. We consider the deficiency in TWCC's internal control, identified as item 96-1 in the Schedule of Findings and Recommendations, to be a significant deficiency.

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 19, 2013



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Joint Powers Board
Todd-Wadena Community Corrections

We have audited, in accordance with the 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, 2011 and 2012, and the related notes to the financial statements, which collectively comprise TWCC's basic financial statements, and have issued our report thereon dated July 19, 2013.

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 did not have public 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 communication is intended solely for the information and use of the Joint Powers Board, Executive Committee, management, and others within TWCC, and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 19, 2013