

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

TODD-WADENA COMMUNITY CORRECTIONS
LONG PRAIRIE, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

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.

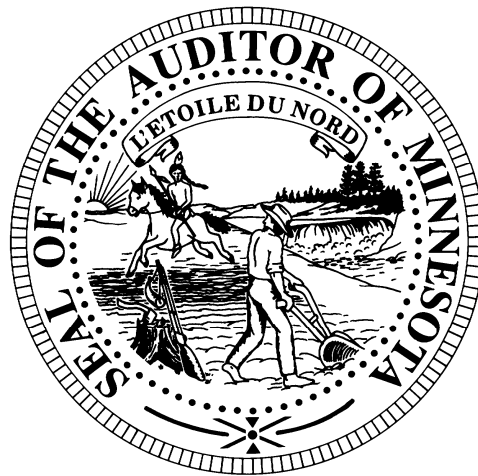
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

Year Ended December 31, 2015



**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
2015**

| | <u>Position</u> | <u>County</u> |
|---|------------------------------|--------------------------|
| Joint Powers Board | | |
| 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 |
| Sheldon Monson | | Wadena County |
| Dave Hillukka | | Wadena County |
| Executive Committee | | |
| David Kircher | Chair | Todd County |
| Barb Becker | | Todd County |
| Jane Gustafson | | Todd County |
| James Hofer | Vice Chair | Wadena County |
| Sheldon Monson | | Wadena County |
| Naomi Moyer | | Wadena County |
| Honorable Sally I. Robertson | | Todd and Wadena Counties |
| Community Corrections Advisory Board | | |
| Naomi Moyer | Citizen Member | |
| Gail Honek | Citizen Member | |
| Connie Nelson | Victim Services | |
| Rocio Fernandez-Lugo | 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) | |
| Timothy Churchwell | Public Defender (T) | |
| Ryan Ries | Public Defender (W) | |
| Melissa Birkholtz | Police Chief | |
| H. Michael Carr, Jr. | Wadena County Sheriff | |
| Don Asmus | Todd County Sheriff | |
| Cindy Pederson | Health Professional (W) | |
| Mike Willie | Social Services Professional | |
| Patrick Sutlief | Educational Administrator | |
| Katherine Langer | Correctional Administrator | |
| Sheldon Monson | Wadena County Commissioner | |
| James Hofer | Wadena County Commissioner | |
| Shannon Suderman | Senior Corrections Agent | |

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REBECCA OTTO
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 year ended December 31, 2015, 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 from 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, 2015, and the respective changes in financial position thereof for the year 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.E. to the financial statements, in 2015 TWCC adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (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*, and GASB Statement No. 82, *Pension Issues*, 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 and Required Supplementary Information as listed in the table of contents 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 3, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(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 year ended December 31, 2015. 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 2015, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$611,842 (Exhibit 1), of which \$67,557 is invested in capital assets, leaving unrestricted net position of (\$679,399).
- Total net position decreased from (\$465,478) in 2014 to (\$611,842) in 2015, a decrease of \$146,364.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Fund financial statements. The first column of each of the first two statements presents governmental fund data. These columns focus on how money flows in and out and the balances left at year-end that are available for spending. They are reported using 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, deferred outflows of resources, liabilities, and deferred inflows of resources, 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 liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$611,842 at December 31, 2015. The largest portion of TWCC's net position reflects current assets.

| | Net Position | | | |
|---------------------------------------|---------------------|-------------------|-------------------------|-----------------------|
| | 2015 | 2014 | Increase/ (Decrease) | Percent (%) Change |
| Assets | | | | |
| Current and other assets | \$ 466,103 | \$ 563,274 | \$ (97,171) | (17.25) |
| Capital assets | 67,557 | 62,700 | 4,857 | 7.75 |
| Total Assets | \$ 533,660 | \$ 625,974 | \$ (92,314) | (14.75) |
| Deferred Outflows of Resources | | | | |
| Deferred pension outflows | \$ 120,853 | \$ - | \$ 120,853 | - |
| Liabilities | | | | |
| Current liabilities | \$ 81,850 | \$ 100,102 | \$ (18,252) | (18.23) |
| Noncurrent liabilities | 1,081,124 | 157,472 | 923,652 | 586.55 |
| Total Liabilities | \$ 1,162,974 | \$ 257,574 | \$ 905,400 | 351.51 |
| Deferred Inflows of Resources | | | | |
| Deferred pension inflows | \$ 103,381 | \$ - | \$ 103,381 | - |

| | <u>2015</u> | <u>2014</u> | <u>Increase/ (Decrease)</u> | <u>Percent (%) Change</u> |
|----------------------------------|---------------------|---------------------|---------------------------------|-------------------------------|
| Net Position | | | | |
| Investment in capital assets | \$ 67,557 | \$ 62,700 | \$ 4,857 | 7.75 |
| Unrestricted | <u>(679,399)</u> | <u>305,700</u> | <u>(985,099)</u> | (322.24) |
| Total Net Position, as reported | <u>\$ (611,842)</u> | \$ 368,400 | <u>\$ (980,242)</u> | (266.08) |
| Change in accounting principles* | | <u>(833,878)</u> | | |
| Total Net Position, as restated | | <u>\$ (465,478)</u> | | |

*This is the first year TWCC implemented the new pension accounting and financial reporting standards, GASB Statements 68, 71, and 82. TWCC had to make a prior year change in accounting principles to record the net pension liability and related deferred outflows of resources.

Governmental Activities

TWCC's activities during 2015 decreased net position by \$146,364. Intergovernmental revenues accounted for 94.5 percent of total revenues for the year. Net position was restated at January 1 due to the implementation of GASB Statements 68, 71, and 82. Key elements in the decrease in net position are as follows:

| | Changes in Net Position | | | |
|--|--------------------------------|-------------------|---------------------------------|-------------------------------|
| | <u>2015</u> | <u>2014</u> | <u>Increase/ (Decrease)</u> | <u>Percent (%) Change</u> |
| Revenues | | | | |
| Intergovernmental | \$ 1,408,250 | \$ 1,437,016 | \$ (28,766) | (2.00) |
| Charges for services | 57,755 | 53,116 | 4,639 | 8.73 |
| Miscellaneous | 22,863 | 19,603 | 3,260 | 16.63 |
| Gain on sale of capital assets | <u>1,125</u> | <u>-</u> | <u>1,125</u> | - |
| Total Revenues | \$ 1,489,993 | \$ 1,509,735 | \$ (19,742) | (1.31) |
| Expenses | | | | |
| Public safety | <u>1,636,357</u> | <u>1,608,817</u> | <u>27,540</u> | 1.71 |
| Net Change in Net Position | \$ (146,364) | \$ (99,082) | \$ (47,282) | (47.72) |
| Net Position - January 1, as restated (Note 1.E.) | <u>(465,478)</u> | <u>467,482</u> | <u>(932,960)</u> | (199.57) |
| Net Position - December 31 | <u>\$ (611,842)</u> | <u>\$ 368,400</u> | <u>\$ (980,242)</u> | (266.08) |

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 \$384,253 at December 31, 2015.

Revenues for TWCC's General Fund decreased by \$20,867 from 2014 to 2015, while total expenditures increased by \$28,609 during the same period.

As shown in the Statement of Revenues, Expenditures, and Changes in Fund Balance (Exhibit 2) for 2015, intergovernmental revenues totaled \$1,408,250, or 94.6 percent, of total revenues.

General Fund Budgetary Highlights

The budgeted expenditures increased by \$7,563 in 2015. 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, 2015, totaled \$67,557, an increase of \$4,857, or 7.7 percent, from 2014. The investment in capital assets includes buildings, office furniture and equipment, and automobiles.

Long-Term Debt

TWCC had no outstanding debt during 2015.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

TWCC adopted the 2016 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.

CONTACTING TWCC'S FINANCIAL MANAGEMENT

This financial report is designed to provide 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.

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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, 2015**

| | General Fund | Reconciliation | Governmental Activities |
|---|-------------------|---------------------|----------------------------|
| <u>Assets and Deferred Outflows of Resources</u> | | | |
| Assets | | | |
| Current assets | | | |
| Cash and pooled investments | \$ 433,534 | \$ - | \$ 433,534 |
| Petty cash and change funds | 100 | - | 100 |
| Due from other governments | 32,469 | - | 32,469 |
| Noncurrent assets | | | |
| Depreciable capital assets - net | - | 67,557 | 67,557 |
| Total Assets | \$ 466,103 | \$ 67,557 | \$ 533,660 |
| Deferred Outflows of Resources | | | |
| Deferred pension outflows | - | 120,853 | 120,853 |
| Total Assets and Deferred Outflows of Resources | \$ 466,103 | \$ 188,410 | \$ 654,513 |
| <u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u> | | | |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable | \$ 16,781 | \$ - | \$ 16,781 |
| Salaries payable | 65,069 | - | 65,069 |
| Noncurrent liabilities | | | |
| Compensated absences - due within one year | - | 42,206 | 42,206 |
| Compensated absences - due in more than one year | - | 168,825 | 168,825 |
| Net pension liability | - | 870,093 | 870,093 |
| Total Liabilities | \$ 81,850 | \$ 1,081,124 | \$ 1,162,974 |
| Deferred Inflows of Resources | | | |
| Deferred pension inflows | - | \$ 103,381 | \$ 103,381 |
| Fund Balance | | | |
| Unassigned | 384,253 | \$ (384,253) | |
| Net Position | | | |
| Investment in capital assets | | \$ 67,557 | \$ 67,557 |
| Unrestricted | | (679,399) | (679,399) |
| Total Net Position | | \$ (611,842) | \$ (611,842) |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position | \$ 466,103 | \$ 188,410 | \$ 654,513 |

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

***EXHIBIT 1
(Continued)***

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
DECEMBER 31, 2015**

| | |
|---|-----------------------------------|
| Reconciliation of the Governmental Fund Balance to Net Position | |
| Fund Balance - General Fund | \$ 384,253 |
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund. | 67,557 |
| Deferred outflows resulting from pension obligations are not available resources and, therefore, are not reported in the governmental fund. | 120,853 |
| Long-term liabilities, including compensated absences and net pension liability, are not due and payable in the current period and, therefore, are not reported in the governmental fund. | (1,081,124) |
| Deferred inflows resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental fund. | <u>(103,381)</u> |
| Net Position - Governmental Activities | <u><u>\$ (611,842)</u></u> |

**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, 2015**

| | General Fund | Reconciliation | Governmental Activities |
|---|---------------------|---------------------|----------------------------|
| Revenues | | | |
| Intergovernmental | \$ 1,408,250 | \$ - | \$ 1,408,250 |
| Charges for services | 57,755 | - | 57,755 |
| Miscellaneous | 22,863 | - | 22,863 |
| Gain on sale of capital assets | - | 1,125 | 1,125 |
| | \$ 1,488,868 | \$ 1,125 | \$ 1,489,993 |
| Expenditures/Expenses | | | |
| Current | | | |
| Public safety | 1,608,280 | 28,077 | 1,636,357 |
| | \$ (119,412) | \$ (26,952) | \$ (146,364) |
| Other Financing Source (Uses) | | | |
| Sale of capital assets | 1,125 | (1,125) | - |
| | \$ (118,287) | \$ (28,077) | \$ (146,364) |
| Fund Balance/Net Position - January 1, as restated (Note 1.E.) | 502,540 | (968,018) | (465,478) |
| Fund Balance/Net Position - December 31 | \$ 384,253 | \$ (996,095) | \$ (611,842) |

**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 **\$ (118,287)**

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.

| | | |
|---|-----------|-------|
| Expenditures for general capital assets | \$ 23,777 | |
| Current year depreciation expense | (18,920) | 4,857 |

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.

| | | |
|---|-------------|----------|
| Change in compensated absences payable | \$ (14,191) | |
| Change in net pension liability, as restated | (2,080) | |
| Change in deferred outflows of resources, as restated | 86,718 | |
| Change in deferred pension inflows | (103,381) | (32,934) |

Change in Net Position of Governmental Activities **\$ (146,364)**

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Summary of Significant Accounting Policies

Todd-Wadena Community Corrections' (TWCC) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2015. 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 4.B.

B. Basic Financial Statements

Exhibits 1 and 2 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.

**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, Deferred Outflows/Inflows of Resources, 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, Deferred Outflows/Inflows of Resources, 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 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**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expenses) until then. Currently, TWCC has one item, deferred pension outflows that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date and also the differences between projected and actual earnings on pension plan investment and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. TWCC has one item, deferred pension inflows that qualifies for reporting in this category. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

6. 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.

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

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

7. Classification of Fund Balance

Fund balance is divided into 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.

Unassigned - the residual classification for the General Fund and includes all spendable amounts.

8. 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.

9. 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**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

10. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

E. Change in Accounting Principles

During the year ended December 31, 2015, TWCC adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, modifies the measure of payroll that is presented in the required supplementary information schedules.

GASB Statements 68 and 71 require TWCC to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record TWCC's net pension liability and related deferred outflows of resources.

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

1. Summary of Significant Accounting Policies

E. Change in Accounting Principles (Continued)

| | Governmental Activities |
|---|----------------------------|
| Net Position, January 1, 2015, as previously reported | \$ 368,400 |
| Change in accounting principles | (833,878) |
| Net Position, January 1, 2015, as restated | \$ (465,478) |

F. Revenues and Expenditures

1. Revenues

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

Intergovernmental

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

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

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

1. Summary of Significant Accounting Policies

F. Revenues and Expenditures

1. Revenues (Continued)

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.

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, 2015, Todd County's deposits were fully insured and collateralized.

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

2. Detailed Notes

A. Assets (Continued)

2. Receivables

Amounts due from other governments consisted of state grants in the amount of \$32,469 at December 31, 2015.

TWCC did not have any receivables scheduled to be collected beyond one year as of December 31, 2015.

3. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

| | <u>Beginning Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending Balance</u> |
|---------------------------------------|------------------------------|------------------|------------------|---------------------------|
| Capital assets depreciated | | | | |
| Buildings | \$ 55,000 | \$ - | \$ - | \$ 55,000 |
| Office equipment | 42,293 | - | - | 42,293 |
| Automotive | <u>155,177</u> | <u>23,777</u> | <u>20,508</u> | <u>158,446</u> |
| Total capital assets depreciated | <u>\$ 252,470</u> | <u>\$ 23,777</u> | <u>\$ 20,508</u> | <u>\$ 255,739</u> |
| Less: accumulated depreciation for | | | | |
| Buildings | \$ 17,875 | \$ 1,375 | \$ - | \$ 19,250 |
| Office equipment | 40,627 | 834 | - | 41,461 |
| Automotive | <u>131,268</u> | <u>16,711</u> | <u>20,508</u> | <u>127,471</u> |
| Total accumulated depreciation | <u>\$ 189,770</u> | <u>\$ 18,920</u> | <u>\$ 20,508</u> | <u>\$ 188,182</u> |
| Total Capital Assets Depreciated, Net | <u>\$ 62,700</u> | <u>\$ 4,857</u> | <u>\$ -</u> | <u>\$ 67,557</u> |

Depreciation expense of \$18,920 was charged to TWCC's public safety function for the year ended December 31, 2015.

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

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

2. Detailed Notes

B. Liabilities

1. Employee Benefits (Continued)

employees upon termination. Unused accumulated vacation is accrued as compensated absences. Sick leave, valued at \$330,133 at December 31, 2015, is available to employees in the event of illness-related absences, of which 40 percent is paid upon separation. The vested portion of which is also included in compensated absences.

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|----------------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Compensated absences | \$ 196,840 | \$ 14,191 | \$ - | \$ 211,031 | \$ 42,206 |

3. Pension Plan

A. Defined Benefit Pension Plan

1. Plan Description

All full-time and certain part-time employees of TWCC are covered by a defined benefit pension plan 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. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

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

3. Pension Plan

A. Defined Benefit Pension Plan (Continued)

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph 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 their public service.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Fund 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. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service 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.

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

3. Pension Plan

A. Defined Benefit Pension Plan

2. Benefits Provided (Continued)

For General Employees Retirement Fund members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

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. Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015.

In 2015, TWCC was required to contribute the following percentages of annual covered salary:

| | |
|-----------------------------------|--------|
| General Employees Retirement Fund | |
| Basic Plan members | 11.78% |
| Coordinated Plan members | 7.50 |

The Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014.

TWCC contributions for the General Employees Retirement Fund for the year ended December 31, 2015, were \$75,096. The contributions are equal to the contractually required contributions as set by state statute.

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

3. Pension Plan

A. Defined Benefit Pension Plan (Continued)

4. Pension Costs

At December 31, 2015, TWCC reported a liability of \$870,093 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. TWCC's proportion of the net pension liability was based on TWCC's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, TWCC's proportion was 0.0168 percent. It was 0.01847 percent measured as of June 30, 2014. TWCC recognized pension expense of \$95,884 for its proportionate share of the General Employees Retirement Fund's pension expense.

TWCC reported its proportionate share of the General Employees Retirement Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual economic experience | \$ - | \$ 43,868 |
| Difference between projected and actual investment earnings | 82,368 | - |
| Changes in proportion | - | 59,513 |
| Contributions paid to PERA subsequent to the measurement date | <u>38,485</u> | <u>-</u> |
| Total | <u>\$ 120,853</u> | <u>\$ 103,381</u> |

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

3. Pension Plan

A. Defined Benefit Pension Plan

4. Pension Costs (Continued)

A total of \$38,485 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31 | Pension Expense Amount |
|---------------------------|------------------------------|
| 2016 | \$ (13,868) |
| 2017 | (13,868) |
| 2018 | (13,868) |
| 2019 | 20,591 |

5. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

| | |
|------------------------------|-----------------------|
| Inflation | 2.75 percent per year |
| Active member payroll growth | 3.50 percent per year |
| Investment rate of return | 7.90 percent |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. The cost of living benefit increases for retirees was assumed to be 1.0 percent effective every January 1 through 2035, and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

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

3. Pension Plan

A. Defined Benefit Pension Plan

5. Actuarial Assumptions (Continued)

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| Domestic stocks | 45% | 5.50% |
| International stocks | 15 | 6.00 |
| Bonds | 18 | 1.45 |
| Alternative assets | 20 | 6.40 |
| Cash | 2 | 0.50 |

6. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

3. Pension Plan

A. Defined Benefit Pension Plan (Continued)

7. Pension Liability Sensitivity

The following presents TWCC's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what TWCC's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

| | 1% Decrease in Discount Rate (6.9%) | Discount Rate (7.9%) | 1% Increase in Discount Rate (8.9%) |
|--|---|-------------------------|---|
| Proportionate share of the General Employees Retirement Fund net pension liability | \$ 1,368,096 | \$ 870,093 | \$ 458,820 |

8. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

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**

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 \$490,000 per claim in 2015 and \$500,000 per claim in 2016. 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 2015 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**

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 to the Collaborative for 2015.

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 2015, TWCC did not contribute any funds to the Collaborative.

REQUIRED SUPPLEMENTARY INFORMATION

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

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <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 | \$ 864,317 | \$ 864,317 | \$ 863,826 | \$ (491) |
| Minnesota Department of Revenue | - | - | 4,177 | 4,177 |
| Minnesota Department of Public Safety | 82,029 | 82,029 | 73,481 | (8,548) |
| Local | 766,706 | 766,706 | 466,766 | (299,940) |
| Charges for services | - | - | 57,755 | 57,755 |
| Miscellaneous | - | - | 22,863 | 22,863 |
| Total Revenues | \$ 1,713,052 | \$ 1,713,052 | \$ 1,488,868 | \$ (224,184) |
| Expenditures | | | | |
| Current | | | | |
| Public safety | 1,587,164 | 1,587,164 | 1,608,280 | (21,116) |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ 125,888 | \$ 125,888 | \$ (119,412) | \$ (245,300) |
| Other Financing Sources (Uses) | | | | |
| Sale of capital assets | - | - | 1,125 | 1,125 |
| Net Change in Fund Balance | \$ 125,888 | \$ 125,888 | \$ (118,287) | \$ (244,175) |
| Fund Balance - January 1 | 502,540 | 502,540 | 502,540 | - |
| Fund Balance - December 31 | \$ 628,428 | \$ 628,428 | \$ 384,253 | \$ (244,175) |

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

EXHIBIT A-2

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-------------------------|---|--|----------------------------|---|---|
| 2015 | 0.0168% | \$ 870,093 | \$ 958,494 | 90.78% | 78.19% |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

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

EXHIBIT A-3

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

| Year Ending | Statutorily Required Contributions (a) | Actual Contributions in Relation to Statutorily Required Contributions (b) | Contribution (Deficiency) Excess (b-a) | Covered Payroll (c) | Actual Contributions as a Percentage of Covered Payroll (b/c) |
|--------------------|---|---|---|----------------------------|--|
| 2015 | \$ 75,096 | \$ 75,096 | \$ - | \$ 1,000,775 | 7.50% |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. Todd-Wadena Community Corrections' year-end is December 31.

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

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Budgetary Information

Budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year-end unless specifically carried over to the next budget year by Board action.

The budgets may be amended or modified at any time by the Joint Powers Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level.

2. Excess of Expenditures Over Appropriations

The General Fund reported expenditures in excess of budget by \$21,116 for the year ended December 31, 2015.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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.



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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 year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise TWCC's basic financial statements, and have issued our report thereon dated January 3, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of TWCC's basic 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.

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.

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

January 3, 2017



REBECCA OTTO
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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 year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise TWCC's basic financial statements, and have issued our report thereon dated January 3, 2017.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because TWCC does not have any financing through taxes.

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 Other 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 the Joint Powers Board 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 3, 2017