

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2013

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.

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**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

For the Year Ended December 31, 2013



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

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**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

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**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2013

			<u>Term Expires</u>
Joint Powers Board			
Chair	Matt Flynn	Olmsted County*	January 2016
Vice Chair	Duane Bakke	Fillmore County*	January 2014
Board Member	Dave Erickson	Dodge County*	January 2014
Board Member	Steven Gray	Dodge County*	January 2016
Board Member	Marc Prestby	Fillmore County*	January 2014
Board Member	Jim Bier	Olmsted County*	January 2014
Board Member	Ken Brown	Olmsted County*	January 2014
Appointed			
Executive Director	Shelley McBride	Olmsted County	Indefinite

*Commissioner

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Joint Powers Board
Dodge-Fillmore-Olmsted Community Corrections
Rochester, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of Dodge-Fillmore-Olmsted Community Corrections as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Community Corrections' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the Community Corrections' 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 the Community Corrections' 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 Dodge-Fillmore-Olmsted Community Corrections as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Reporting Entity

As discussed in Note 1.E. to the financial statements, previous to 2013 Dodge-Fillmore-Olmsted Community Corrections was reported as part of the General Fund of Olmsted County. Due to implementation of Governmental Accounting Standards Board (GASB) Statement 61, the Community Corrections is now reported as a separate independent entity. Our opinion is not modified with respect to this matter.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 the Community Corrections adopted new accounting guidance by implementing the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and Statement No. 69, *Government Combinations and Disposals of Government Operations*, which represent changes 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dodge-Fillmore-Olmsted Community Corrections' basic financial statements. The Schedule of Intergovernmental Revenue is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Intergovernmental Revenue is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Intergovernmental Revenue is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2014, on our consideration of Dodge-Fillmore-Olmsted Community Corrections' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Dodge-Fillmore-Olmsted Community Corrections' internal control over financial reporting and compliance.

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 26, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(Unaudited)

Our Management's Discussion and Analysis (MD&A) of Dodge-Fillmore-Olmsted Community Corrections' (DFO Community Corrections) financial performance provides an overview and analysis of the financial activities for the fiscal year ended December 31, 2013. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total net position for DFO Community Corrections is \$280,000. Prior to 2013, DFO Community Corrections was reported as a component of the Olmsted County General Fund. Additional information about this transfer of operations is disclosed in the Summary of Significant Accounting Policies.
- Total fund balance for the DFO Community Corrections' General Fund was \$0 at the end of 2013, in accordance with DFO's financial policy of paying back to the member counties any remaining fund balance at the end of the year.
- Prior to the pay back to member counties at the end of the year, DFO Community Corrections' General Fund reported \$701,000 revenues in excess of expenditures mainly due to unspent personnel and operating budgets, \$400,000 of which was due to the lag in filling vacancies.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to DFO Community Corrections' basic financial statements. The 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. This report also contains other required supplementary information such as a budgetary comparison schedule for the General Fund.

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 an accounting method called modified accrual 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) of each statement.

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 DFO Community Corrections as a whole and present a longer-term view of its finances. These columns include all assets and liabilities using the full 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 the Community Corrections' financial health is improving or deteriorating.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund statements. The notes to the financial statements can be found on pages 14 through 24 of this report.

Other information is provided as supplementary information regarding DFO Community Corrections' intergovernmental revenue.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may, over time, be a useful indicator of a government's financial position. In the case of DFO Community Corrections, assets exceeded liabilities by \$280,000 for 2013, related to the greater revenue recognition as a result of the move from a 45-day to a 75-day revenue availability criterion.

Table 1
Net Position as of December 31
(in thousands of dollars)

	Governmental Activities 2013
	<hr/>
Assets	
Current and other assets	\$ 1,862
Liabilities	
Current and other liabilities	<hr/> 1,582
Net position	
Unrestricted	<hr/> <hr/> \$ 280

Comparative information will be provided in future years. The following analysis focuses on DFO Community Corrections' net position (Table 1).

Governmental Activities

The total net position of DFO Community Corrections is \$280,000. DFO Community Corrections continues to report positive balances in net position because total assets exceed total liabilities.

Current and other assets increased due to \$800,000 cash received primarily from Olmsted County that will be paid back to Olmsted County in 2014 as a correction.

Liabilities, which consist of accounts payable, due to other governments, and unearned revenue, increased \$1,183,000 over 2012 by the amounts due back to the counties, primarily Olmsted County.

Table 2
Changes in Net Position for the Year Ended December 31
(in thousands of dollars)

	2013
Revenues	
Intergovernmental revenue	\$ 7,549
Charges for services	635
Fines and forfeitures	42
Other	5
	5
Total Revenues	\$ 8,231
Expenses	
Administration	\$ 1,836
Offender services	5,927
Victim services	900
	900
Total Expenses	\$ 8,663
Transfer of operations	712
Change in net position	\$ 280

Comparative information will be provided in future years. The following analysis focuses on DFO Community Corrections' changes in net position (Table 2):

- Revenues collected in 2013 by DFO Community Corrections totaled \$8.2 million. This is due to the shift from cash basis to accrual basis for offender fee collections, causing the amount of revenue recognized to be significantly larger than usual, mostly offset by the increase in county contributions.

- Member county contributions were \$4.7 million in 2013, \$4.2 million in 2012, \$4.6 million in 2011, \$4.4 million in 2010, and \$4.3 million in 2009. In 2012, DFO Community Corrections used \$490,000 in reserves to offset the County shares.
- Total expenses for 2013 were \$8.7 million, an increase due mostly to contractual and inflationary wage and benefits increases.

FINANCIAL ANALYSIS OF THE GENERAL FUND

As noted earlier, DFO Community Corrections uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

General Fund. The focus of DFO Community Corrections' General Fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing DFO Community Corrections' financing requirements.

Table 3
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31
(in thousands of dollars)

	2013
Revenues	
Intergovernmental revenue	\$ 7,864
Charges for services	786
Fines and forfeitures	9
Gifts and contributions	5
Total Revenues	\$ 8,664
Expenditures	
Administration	\$ 1,837
Offender services	5,927
Victim services	900
Total Expenditures	\$ 8,664
Net Change in Fund Balance	\$ -
Fund Balance - January 1	-
Fund Balance - December 31	\$ -

Comparative information will be provided in future years. The following analysis focuses on DFO Community Corrections' revenues, expenditures, and changes in fund balance (Table 3):

- As of December 31, 2013, DFO Community Corrections' General Fund reported a fund balance of \$0, according to the policy to distribute net revenue or expense to the three member counties each year-end. DFO Community Corrections intentionally used reserves to minimize County shares in 2012, thereby decreasing fund balance. County shares, prior to year-end payouts, increased by \$700,000 in 2013 in compliance with the policy to discontinue the use of reserves to fund current year operations.
- Expenditures for personnel services accounted for approximately 79 percent of DFO Community Corrections' total expenditures in 2013.
- Intergovernmental revenues (monies received from member counties, state grants, and federal grants) accounted for 91 percent of DFO Community Corrections' total revenues. Prior to the year-end payments to the three member counties, revenues exceeded actual expenditures in 2013 and 2012 by \$701,000 and \$491,000, respectively.

General Fund Budgetary Highlights

Table 4
Final Budget and Actual Amounts
(in thousands of dollars)

	Final Budget	Actual Amounts	Variance with Final Budget
Revenues			
Intergovernmental	\$ 8,288	\$ 7,864	\$ (424)
Charges for services	652	786	134
Fines and forfeitures	8	9	1
Gifts and contributions	4	5	1
Total Revenues	\$ 8,952	\$ 8,664	\$ (288)
Expenditures			
Administration	\$ 1,879	\$ 1,837	\$ 42
Offender services	6,150	5,927	223
Victim services	923	900	23
Total Expenditures	\$ 8,952	\$ 8,664	\$ 288

The following analysis focuses on DFO Community Corrections' final budget and actual amounts (Table 4):

- Budgets can be amended during the year by the DFO Community Corrections Joint Powers Board. Budget revisions are reviewed by administration and submitted to the Board for approval.
- The three member counties' total contributions, net of year-end payouts, increased \$486,000 in 2013.
- During the year, the final revenue and expense budget both increased slightly from the original budget. The changes were mostly due to grant budget adjustments that happened during the year as well as the purchase of personal computers.
- Total expenditures for DFO Community Corrections for 2013 were \$288,000 under budget. The majority of the unspent budget monies were in the personnel and operating budgets.
- Total revenues for 2013 were \$288,000 less than the final budget. Charges for services came in \$134,000 above the budget projections, while intergovernmental revenues were \$424,000 under budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year-end, DFO Community Corrections owned one capital asset, a fully depreciated 1995 sedan purchased in 2007 for \$7,000.

Additional information about capital assets can be found in Note 2.A.3.

Debt Administration

At year-end, DFO Community Corrections did not have any bonded debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The DFO Community Corrections Joint Powers Board set the 2014 budget at \$9.18 million, an increase of \$326,000, or four percent, from the 2013 budget. The main funding for this increased budget came from the county shares. Olmsted County's share went up \$188,000 in 2014.

Olmsted County had an average unemployment rate of 4.2 percent for 2013, while the average unemployment rate was 7.4 percent for the United States and 5.1 percent for the State of Minnesota.

The DFO Community Corrections' 2013 budget was passed at a Board meeting in late 2012.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of finances and to show Dodge-Fillmore-Olmsted Community Corrections' accountability for the money it receives. If you have a question about this report or need information, contact the Olmsted County Finance Department, 2117 Campus Drive S.E., Suite 200, Rochester, Minnesota 55904.

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BASIC FINANCIAL STATEMENTS

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**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

EXHIBIT 1

**GENERAL FUND BALANCE SHEET AND
STATEMENT OF NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 831,564	\$ -	\$ 831,564
Accounts receivable	456,209	-	456,209
Due from other governments	553,084	-	553,084
Prepays	20,569	-	20,569
Total Assets	\$ 1,861,426	\$ -	\$ 1,861,426
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balances/Net Position</u>			
Liabilities			
Accounts payable	\$ 37,306	\$ -	\$ 37,306
Due to other governments	1,541,285	-	1,541,285
Unearned revenue	3,318	-	3,318
Total Liabilities	\$ 1,581,909	\$ -	\$ 1,581,909
Deferred Inflows of Resources			
Unavailable revenue	\$ 279,517	\$ (279,517)	\$ -
Fund Balance/Net Position			
Fund Balance			
Nonspendable			
Prepays	\$ 20,569	\$ (20,569)	
Unassigned	(20,569)	20,569	
Total Fund Balance	\$ -	\$ -	
Net Position			
Unrestricted		\$ 279,517	\$ 279,517
Total Liabilities and Fund Balance/Net Position	\$ 1,861,426	\$ -	\$ 1,861,426
 Reconciliation of the General Fund Balance to Net Position			
Fund Balance - General Fund			\$ -
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred inflows of resources in the governmental funds.			279,517
Net Position - Governmental Activities			\$ 279,517

**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

EXHIBIT 2

**GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND STATEMENT OF ACTIVITIES OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General Fund	Reconciliation	Governmental Activities
Revenues			
Intergovernmental revenue	\$ 7,864,283	\$ (315,315)	\$ 7,548,968
Charges for services	786,273	(150,884)	635,389
Fines and forfeits	8,356	34,143	42,499
Gifts and contributions	4,597	-	4,597
	\$ 8,663,509	\$ (432,056)	\$ 8,231,453
Expenditures/Expenses			
Current			
Community Corrections			
Administration	\$ 1,836,601	\$ -	\$ 1,836,601
Offender services	5,927,228	-	5,927,228
Victim services	900,110	-	900,110
	\$ 8,663,939	\$ -	\$ 8,663,939
Excess of Revenues Over (Under) Expenditures/Expenses	\$ (430)	\$ (432,056)	\$ (432,486)
Other Financing Sources (Uses)			
Proceeds from/gain on sale of capital assets	430	-	430
Special Item			
Transfer of operations	-	711,573	711,573
	\$ -	\$ 279,517	\$ 279,517
Net Change in Fund Balance/Net Position			
	\$ -	\$ -	\$ -
Fund Balance/Net Position - January 1			
	\$ -	\$ 279,517	\$ 279,517
Fund Balance/Net Position - December 31			
	\$ -	\$ 279,517	\$ 279,517

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

Net Change in Fund Balance		\$ -
To recognize the effect of the transfer of operations at the government-wide level		711,573
<p>In the fund, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statement and the statement of activities is the increase or decrease in revenue deferred as unavailable.</p>		
Unavailable revenue - December 31	\$ 279,517	
Unavailable revenue - January 1	(711,573)	(432,056)
Change in Net Position of Governmental Activities		\$ 279,517

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

**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

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

1. Summary of Significant Accounting Policies

Dodge-Fillmore-Olmsted Community Corrections' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2013. 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 the Community Corrections are discussed below.

Changes in Accounting Principles

During 2013, the Community Corrections adopted new accounting guidance by implementing the provisions of GASB Statements 61, 65, and 69. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statement No. 14 and No. 34*, modifies and clarifies the requirements for inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.F.5. in the notes to the financial statements for additional information regarding the Community Corrections' deferred outflows/inflows of resources. GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. See Note 1.E. for additional information regarding the Community Corrections' transfer of operation.

Restatement of December 31, 2012, net position or fund balance was not required as a result of adopting these changes in accounting principles.

**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity

The Community Corrections provides correctional services to three counties: Dodge, Fillmore, and Olmsted. The Dodge-Fillmore-Olmsted Community Corrections Joint Powers Board was established pursuant to the Community Corrections Act, Minn. Stat. §§ 401.02, 401.05 and a joint powers agreement, effective January 1, 1974, between the three counties, pursuant to Minn. Stat. § 471.59.

The Community Corrections is governed by a seven-member board composed of county commissioners appointed as representatives by their respective county boards for terms of at least two years in length as follows: three commissioners from Olmsted County; two commissioners from Dodge County and two commissioners from Fillmore County. An alternate will be selected from each county, who may vote only in the instance of the absence of one of the voting members. The books and records of the Board shall be maintained at the Corrections Division of the Olmsted County Community Services Department.

The Community Corrections is financed through state grants and contributions from the participating counties. Member contributions for the current year totaled \$4,677,431, or 59.5 percent of the total intergovernmental revenue received.

B. Basic Financial Statements

Basic financial statements include information on the Community Corrections' activities as a whole and information on the individual fund of the Community Corrections. These separate presentations are reported in different columns on Exhibits 1 and 2. Each of the exhibits starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of the Community Corrections as a whole.

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.

**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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. The Community Corrections considers all revenues as available if collected within 75 days after the end of the current period. Charges for services and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred.

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

D. Budgetary Data

The Joint Powers Board of the Dodge-Fillmore-Olmsted Community Corrections adopts estimated expenditure budgets for the General Fund on the modified accrual basis of accounting.

E. Special Item - Transfer of Operations

Prior to 2013, the Dodge-Fillmore-Olmsted Community Corrections was reported as a component of the Olmsted County General Fund and was presented as a separate column in the Supplementary Information section of the Olmsted County Comprehensive Annual Financial Report (CAFR). The clarifying guidance of GASB Statement 61 initiated the restructuring of the agreement between Olmsted County and the Community Corrections Board, resulting in redefining the Community Corrections as a fiscally independent entity. Beginning in 2013, the Community Corrections is presented within an agency fund in the financial statements of Olmsted County's CAFR.

	Carrying Values as of <u>January 1, 2013</u>
Transferred Assets (Net)	
Cash and investments	\$ 31,107
Accounts receivable	485,480
Due from other governments	<u>628,520</u>
 Total Transferred Assets	 <u>\$ 1,145,107</u>

**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Special Item - Transfer of Operations (Continued)

	Carrying Values as of <u>January 1, 2013</u>
Transferred Liabilities	
Accounts payable	\$ 37,737
Due other governments	358,729
Unearned revenue	<u>37,068</u>
Total Transferred Liabilities	<u>\$ 433,534</u>
Net Position of Transferred Community Corrections Operation	<u>\$ 711,573</u>

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Deposits and Investments

The Community Corrections' available cash balances are pooled and invested by Olmsted County in accordance with Minnesota statutes. The County's cash balances and investments are at fair value based on quoted market prices. Additional disclosures defining cash and pooled investments can be found in the Olmsted County CAFR.

2. Receivables

All receivables are shown net of an allowance for uncollectibles.

3. Capital Assets

Capital assets are reported in the governmental activities column in the statement of activities. Capital assets are defined by the Community Corrections as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

1. Summary of Significant Accounting Policies

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

3. Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method to allocate the cost on an annual basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	5

As of December 31, 2013, one vehicle is capitalized and is fully depreciated. This vehicle was sold in 2014.

4. Unearned Revenue

Governmental funds and governmental activities defer revenue recognition in connection with resources that have been received, but not yet earned.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report 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/expense) until then. The Community Corrections does not have any types of deferred outflows of resources in the current year.

**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

1. Summary of Significant Accounting Policies

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

5. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report 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. The Community Corrections reports unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Unavailable revenues are reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts becomes available.

6. Classification of Net Position

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

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

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

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

**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Classification of Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Community Corrections is bound to observe constraints imposed upon the use of the resources in the fund. The classifications are as follows:

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

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

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

Assigned - amounts the Community Corrections 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 Board or the Executive Director who has been delegated that authority by Board resolution.

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

**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

1. Summary of Significant Accounting Policies

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

7. Classification of Fund Balance (Continued)

The Community Corrections applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, or unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The Community Corrections has chosen to refund to its three member counties its entire fund balance at the end of each fiscal year. The Community Corrections will rely on the fund balance of its member organizations should the current year's contributions prove insufficient.

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 expenses during the reporting period. Actual results could differ from those estimates.

2. Detailed Notes

A. Assets

1. Cash, Deposits, and Investments

Through agreement with Olmsted County, all of the Community Corrections' deposit and investment functions are managed by Olmsted County's Treasury Department. County policies are applied to the Community Corrections' portfolio of deposits and investments.

Minnesota Statutes Chapter 118A authorizes Olmsted County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Olmsted County Board.

**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

2. Detailed Notes

A. Assets

1. Cash, Deposits, and Investments (Continued)

Minnesota Statutes Section 118A.03 requires all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds. Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial credit risk for deposits is the risk that, in the event of a bank failure, Olmsted County deposits may not be returned to it. Olmsted County policy requires all deposits to be insured or collateralized in accordance with Minn. Stat. Ch. 118A. At December 31, 2013, none of the County's deposits were subject to custodial credit risk. Olmsted County invests in the types of securities authorized by Minn. Stat. §§ 118A.04 and .05.

Additional disclosures as required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*; GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*; and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, are disclosed on an entity-wide basis in the Olmsted County CAFR.

The following is a summary of the Community Corrections' cash:

	<u>December 31, 2013</u>
Cash and investments	\$ 831,164
Petty cash and change funds	<u>400</u>
Total	<u>\$ 831,564</u>

**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

2. Detailed Notes

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2013, for the Community Corrections' governmental activities including the applicable allowances for uncollectible accounts are as follows:

Accounts receivable	\$ 1,561,198	
Less: allowance for uncollectible	(1,104,989)	
Net Receivables	\$ 456,209	

Net receivables for governmental activities are collectible within the year.

The \$553,084 due from other governments reported on the fund balance sheet and government-wide statement of net position are entirely receivables from the State of Minnesota.

3. Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2013, are:

	Balance January 1, 2013	Additions	Deletions	Balance December 31, 2013
Capital assets depreciated				
Equipment	\$ 22,165	\$ -	\$ 15,165	\$ 7,000
Less: accumulated depreciation for Equipment	22,165	-	15,165	7,000
Total Capital Assets, Net	\$ -	\$ -	\$ -	\$ -

**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

2. Detailed Notes (Continued)

B. Liabilities

Due to Other Governments

Due to Other Governments at December 31, 2013, were as follows:

Due to Olmsted County – staffing-related costs	\$ 837,740
Due to Olmsted County	576,410
Due to Dodge County	61,622
Due to Fillmore County	63,199
Due to other various counties	<u>2,314</u>
Total	<u>\$ 1,541,285</u>

3. Risk Management

The Community Corrections is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. Risk management is handled through a combination of purchased commercial insurance and participation in the Olmsted County self-insurance program. The Community Corrections did not have a loss exceeding the limits of coverage for any of the past three years. There were no significant reductions in insurance from the prior year.

Olmsted County handles its self-insurance through the Self-Insurance Internal Service Fund. Additional disclosures as required by GASB Statement No. 10, *Accounting and Reporting for Risk Financing and Related Insurance Issues*, are disclosed on an entity-wide basis in the Olmsted County CAFR.

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REQUIRED SUPPLEMENTARY INFORMATION

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**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

EXHIBIT A-1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 8,242,288	\$ 8,287,646	\$ 7,864,283	\$ (423,363)
Charges for services	603,562	652,012	786,273	134,261
Fines and forfeits	8,000	8,000	8,356	356
Gifts and contributions	-	4,597	4,597	-
Total Revenues	\$ 8,853,850	\$ 8,952,255	\$ 8,663,509	\$ (288,746)
Expenditures				
Current				
Community Corrections				
Administration	\$ 1,912,678	\$ 1,878,887	\$ 1,836,601	\$ 42,286
Offender services	6,022,739	6,150,338	5,927,228	223,110
Victim services	918,433	923,030	900,110	22,920
Total Expenditures	\$ 8,853,850	\$ 8,952,255	\$ 8,663,939	\$ 288,316
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (430)	\$ (430)
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	430	430
Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ -	\$ -	\$ -	\$ -

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**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2013

Budgetary Information

The Dodge-Fillmore-Olmsted Community Corrections Joint Powers Board adopts the annual budget on a basis consistent with GAAP for the General Fund. Amounts encumbered under the budgetary system for purchases to be made in the following year lapse at year-end and are adjusted into the following year's budget if expended. Unencumbered budgets also lapse at year-end.

The Community Corrections has adopted a budget system that does not allow expenditures in excess of the approved budget within the smallest organizational unit of the organization, the department. As a result, in the budget-to-actual comparisons there are no negative variances for expenditure items. It is possible for a negative variance to occur in revenue items. Department managers are obligated to report instances where negative variances are occurring in revenues without corresponding reductions in expenditures.

Actual results of operations presented in accordance with GAAP and the Community Corrections' accounting policies do not recognize encumbrances and restricted fund balance as expenditures until the period in which the actual goods or services are received and a liability is incurred. Encumbrances are reported only on the balance sheets of the General Fund included within restricted, committed, or assigned fund balance. Significant encumbrances, if any, are disclosed in the notes to the financial statements.

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SUPPLEMENTARY INFORMATION

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OTHER SCHEDULE

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**DODGE-FILLMORE-OLMSTED
COMMUNITY CORRECTIONS
ROCHESTER, MINNESOTA**

EXHIBIT B-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General Fund
Reimbursement for Services	
State	
Minnesota Department of Human Services	\$ 210,855
Payments	
Local	
Dodge County	\$ 336,303
Fillmore County	296,338
Olmsted County	4,044,790
Total payments	\$ 4,677,431
Grants	
State	
Minnesota Department of Public Safety	\$ 70,135
Corrections	2,775,172
Total state	\$ 2,845,307
Federal	
Department of Justice	\$ 130,690
Total state and federal grants	\$ 2,975,997
Total Intergovernmental Revenue	\$ 7,864,283

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

Joint Powers Board
Dodge-Fillmore-Olmsted Community Corrections
Rochester, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of Dodge-Fillmore-Olmsted Community Corrections as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Community Corrections' basic financial statements, and have issued our report thereon dated December 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Dodge-Fillmore-Olmsted Community Corrections' internal control over financial reporting to determine the 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 the Community Corrections' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Community Corrections' internal control over financial reporting.

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 on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Community Corrections' financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dodge-Fillmore-Olmsted Community Corrections' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

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 the Community Corrections' 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 the Community Corrections does not have public debt. The provisions for contracting and bidding and the miscellaneous provisions were tested in conjunction with our audit of the financial statements of the Community Corrections, and the remaining listed categories were tested in conjunction with our audit of the financial statements of Olmsted County.

In connection with our audit, nothing came to our attention that caused us to believe that Dodge-Fillmore-Olmsted Community Corrections 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 the Community Corrections' noncompliance with the above referenced provisions.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the Community Corrections' internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Community Corrections' internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 26, 2014