

OFFICE OF THE STATE AUDITOR

AUDIT REPORT

**LAKE REGION LAW ENFORCEMENT CENTER
DEVILS LAKE, NORTH DAKOTA**

FOR THE YEAR ENDED DECEMBER 31, 2013



LAKE REGION LAW ENFORCEMENT CENTER
Devils Lake, North Dakota

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LAKE REGION LAW ENFORCEMENT CENTER
Devils Lake, North Dakota

LAW ENFORCEMENT CENTER OFFICIALS

December 31, 2013

Bill Mertens	Chairman-LEC, Ramsey County Commission Representative
Craig Stromme	Chairman-E-911, City of Devils Lake Representative
Dan Marquart	Commissioner, Nelson County Commission Representative
Rick Morse	Commissioner, City of Devils Lake Representative
Jeff Pfau	Commissioner, Eddy County Commission Representative
Michael Steffan	Commissioner, Benson County Commission Representative
Kenneth Teubner	Commissioner, Towner County Commission Representative
Mark Olson	Commissioner, Ramsey County Commission Representative
Denny Deegan	Operation Administrator
Peggy Hoel	Finance Administrator

STATE AUDITOR

ROBERT R. PETERSON
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Local Government Division:
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MANAGER – DAVID MIX
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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

INDEPENDENT AUDITOR'S REPORT

Governing Board
Lake Region Law Enforcement Center
Devils Lake, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the governmental activities, the business-type activities, and each major fund of the Lake Region Law Enforcement Center, Devils Lake, North Dakota, as of and for the year ended December 31, 2013, and related notes to the financial statements, which collectively comprise the Law Enforcement Center'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 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 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 the entity'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 the entity'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, business-type activities and each major fund of the Lake Region Law Enforcement Center, Devils Lake, North Dakota, 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

As discussed in Note 12 to the financial statements, the entity has elected to change its method of accounting for the general fund and governmental activities to an enterprise fund and business-type activities in 2013. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Management has omitted the *management's discussion and analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information* on page 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2014 on our consideration of the Lake Region Law Enforcement Center's 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 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 Lake Region Law Enforcement Center's internal control over financial reporting and compliance.



Robert R. Peterson
State Auditor

Fargo, North Dakota
August 13, 2014

LAKE REGION LAW ENFORCEMENT CENTER
Devils Lake, North Dakota

STATEMENT OF NET POSITION
December 31, 2013

	Governmental Activities	Enterprise Activities	Total
ASSETS:			
Cash and Cash Equivalents	\$ 60,455	\$ 780,071	\$ 840,526
Investments	132,500	150,000	282,500
Accounts Receivable	-	368,802	368,802
Capital Assets (not being depreciated):			
Land	-	159,703	159,703
Construction In Progress	-	19,300	19,300
Capital Assets (net of accumulated depreciation):			
Buildings	-	1,945,410	1,945,410
Building Improvement	-	95,559	95,559
Vehicles	-	2,640	2,640
Equipment	125,810	96,272	222,082
Office Equipment	-	1,458	1,458
Total Capital Assets	<u>\$ 125,810</u>	<u>\$ 2,320,342</u>	<u>\$ 2,446,152</u>
Total Assets	<u>\$ 318,765</u>	<u>\$ 3,619,215</u>	<u>\$ 3,937,980</u>
LIABILITIES:			
Accounts Payable	\$ 6,687	\$ 42,060	\$ 48,747
Interest Payable	-	295	295
Long-Term Liabilities:			
Due Within One Year:			
Compensated Absences	2,930	14,318	17,248
Lease Payable	-	1,537	1,537
Due Outside One Year:			
Compensated Absences	11,718	57,274	68,992
Lease Payable	-	1,379	1,379
Total Liabilities	<u>\$ 21,335</u>	<u>\$ 116,863</u>	<u>\$ 138,198</u>
NET POSITION:			
Net Investment in Capital Assets	\$ 125,810	\$ 2,317,426	\$ 2,443,236
Restricted for:			
E-911/Wireless	171,620	-	171,620
Unrestricted	-	1,184,926	1,184,926
Total Net Position	<u>\$ 297,430</u>	<u>\$ 3,502,352</u>	<u>\$ 3,799,782</u>

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

LAKE REGION LAW ENFORCEMENT CENTER
Devils Lake, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business- Type Activities	
<u>Governmental Activities:</u>						
Public Safety	\$ 385,147	\$ 335,497	\$ -	\$ (49,650)	\$ -	\$ (49,650)
<u>Business-Type Activities:</u>						
Law Enforcement Center	\$ 3,040,122	\$ 2,942,220	\$ -	\$ -	\$ (97,902)	\$ (97,902)
Total Primary Government	<u>\$ 3,425,269</u>	<u>\$ 3,277,717</u>	<u>\$ -</u>	<u>\$ (49,650)</u>	<u>\$ (97,902)</u>	<u>\$ (147,552)</u>
<u>General Revenues:</u>						
Taxes:						
Earnings on Investments (Interest expense)				\$ -	\$ 2,325	\$ 2,325
Miscellaneous Revenue				12,027	62,648	74,675
Total General Revenues				<u>\$ 12,027</u>	<u>\$ 64,973</u>	<u>\$ 77,000</u>
Change in Net Position				<u>\$ (37,623)</u>	<u>\$ (32,929)</u>	<u>\$ (70,552)</u>
Net Position - January 1				\$ 217,530	\$ -	\$ 217,530
Cummulative effect of accounting change				(11,782)	3,535,281	3,523,499
Prior Period Adjustment				129,305	-	129,305
Net Position - January 1, as restated				<u>\$ 335,053</u>	<u>\$ 3,535,281</u>	<u>\$ 3,870,334</u>
Net Position - December 31				<u>\$ 297,430</u>	<u>\$ 3,502,352</u>	<u>\$ 3,799,782</u>

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

LAKE REGION LAW ENFORCEMENT CENTER
Devils Lake, North Dakota

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2013

	<u>Combined E-911/Wireless</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 60,455
Investments	<u>132,500</u>
Total Assets	<u>\$ 192,955</u>
<u>LIABILITIES</u>	
Accounts Payable	<u>\$ 6,687</u>
<u>Fund Balances:</u>	
Restricted For:	
Public Safety	<u>\$ 186,268</u>
Total Fund Balances	<u>\$ 186,268</u>
Total Liabilities and Fund Balances	<u>\$ 192,955</u>

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

LAKE REGION LAW ENFORCEMENT CENTER
Devils Lake, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
December 31, 2013

Total *Fund Balances* for Governmental Funds \$ 186,268

Total *net position* reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Cost of Capital Assets	\$ 174,737	
Less Accumulated Depreciation	<u>(48,927)</u>	
Net Capital Assets		125,810

Long-term liabilities applicable to the Center's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities- both current and long-term- are reported in the statement of net position Balances at December 31, 2013 are:

Compensated Absences	\$ (14,648)	
Total Long-Term Liabilities		<u>(14,648)</u>

Total Net Position of Governmental Activities \$ 297,430

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

LAKE REGION LAW ENFORCEMENT CENTER
Devils Lake, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

	<u>Combined E-911/Wireless</u>
<u>Revenues:</u>	
911 Assessments	\$ 335,497
Miscellaneous Income	<u>12,027</u>
Total Revenues	<u>\$ 347,524</u>
<u>Expenditures:</u>	
Current:	
Public Safety	<u>\$ 378,786</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (31,262)</u>
Fund Balance - January 1	<u>\$ 217,530</u>
Fund Balance - December 31	<u><u>\$ 186,268</u></u>

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

LAKE REGION LAW ENFORCEMENT CENTER
Devils Lake, North Dakota

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

Net Change in *Fund Balances* - Total Governmental Funds \$ (31,262)

The change in net position reported for governmental activities in the statement of activities is different because:

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Increase in Compensated Absences (2,866)

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. This is the amount of depreciation in the current year.

Current Year Depreciation Expense (3,495)

Change in Net Position of Governmental Activities \$ (37,623)

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

LAKE REGION LAW ENFORCEMENT CENTER
Devils Lake, North Dakota

STATEMENT OF NET POSITION
PROPRIETARY FUND
December 31, 2013

	ENTERPRISE FUND
	Law Enforcement
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash and Cash Equivalents	\$ 780,071
Investments	150,000
Accounts Receivable	368,802
Total Current Assets	\$ 1,298,873
<u>Noncurrent Assets:</u>	
<u>Capital Assets (not being depreciated):</u>	
Land	\$ 159,703
Construction in Progress	19,300
Total Capital Assets, not being depreciated	\$ 179,003
<u>Capital Assets (net of accumulated depreciation):</u>	
Buildings	\$ 1,945,410
Building Improvements	95,559
Vehicles	2,640
Equipment	96,272
Office Equipment	1,458
Total Capital Assets, being depreciated	\$ 2,141,339
Total Capital Assets	\$ 2,320,342
Total Assets	\$ 3,619,215
<u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Accounts Payable	\$ 42,060
Interest Payable	295
Lease Payable	1,537
Compensated Absences Payable	14,318
Total Current Liabilities	\$ 58,210
<u>Noncurrent Liabilities:</u>	
Lease Payable	\$ 1,379
Compensated Absences Payable	57,274
Total Noncurrent Liabilities	\$ 58,653
Total Liabilities	\$ 116,863
<u>Net Position:</u>	
Invested in capital assets, net of related debt	\$ 2,317,426
Unrestricted	1,184,926
Total Net Position	\$ 3,502,352

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

LAKE REGION LAW ENFORCEMENT CENTER
Devils Lake North Dakota

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended December 31, 2013

	ENTERPRISE FUND
	Law Enforcement
<u>Operating Revenues:</u>	
Charges for Services	\$ 2,944,736
<u>Operating Expenses:</u>	
Group Insurance Benefits	\$ 370,603
Retirement	33,003
Payroll	1,449,195
Utilities	117,090
Medical	59,393
Kitchen & Laundry	397,954
Supplies	83,336
Professional Fees	25,265
Other Operating Expenses	288,658
Capital/Maintenance	120,531
<u>Depreciation:</u>	
Buildings	60,039
Building Improvement	6,966
Vehicles	2,640
Equipment	16,373
Office Equipment	1,458
Total Operating Expenses	\$ 3,032,504
Operating Income/Loss	\$ (87,768)
<u>Non-Operating Revenues (Expenses):</u>	
Interest Income	\$ 2,325
Rent Income	46,171
Miscellaneous Revenue - Photocopy/Telephone Use Reimb.	3,246
SCRAM/Monitoring Revenue (RRC)	13,231
SCRAM/Monitoring Expenses (RRC)	(9,590)
Interest Expense and Service Charges	(545)
Total Non-Operating Revenues (Expenses)	\$ 54,838
Income (Loss) Before Contributions and Transfers	\$ (32,930)
Change in Net Position	\$ (32,930)
Net Position - January 1	\$ -
Cummulative effect of accounting change	\$ 3,535,282
Net Position - January 1, as restated	\$ 3,535,282
Net Position - December 31	\$ 3,502,352

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

LAKE REGION LAW ENFORCEMENT CENTER
Devils Lake, North Dakota

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended December 31, 2013

	ENTERPRISE FUND
	Law Enforcement
<u>Cash Flows from Operating Activities:</u>	
Received from Customers	\$ 2,972,320
Payments to Suppliers for Goods and Services	(1,096,794)
Payments to Employees	(1,884,265)
	\$ (8,739)
<u>Cash Flows from Non-capital Financing Activities:</u>	
Other Non-Operating Expenses	\$ (9,590)
Other Non-Operating Proceeds	62,648
	\$ 53,058
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	\$ (91,556)
Principal Paid on Loan	(1,458)
Interest Paid on Loan	(545)
	\$ (93,559)
<u>Cash Flows from Investing Activities:</u>	
Interest Income	\$ 2,325
	\$ (46,915)
Cash and Cash Equivalents - January 1	\$ 826,986
Cash and Cash Equivalents - December 31	\$ 780,071
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income	\$ (87,768)
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</u>	
Depreciation	\$ 87,476
Change in Assets and Liabilities:	
Accounts Receivable	27,584
Accounts Payable	(4,567)
Compensated Absences	(31,464)
Total Adjustments	\$ 79,029
Net Cash Provided by Operating Activities	\$ (8,739)

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

LAKE REGION LAW ENFORCEMENT CENTER
Devils Lake, North Dakota

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
December 31, 2013

	<u>Agency Fund</u>
<u>Assets:</u>	
Cash and Investments	<u>\$ 26,886</u>
<u>Liabilities:</u>	
Due to Inmates	<u>\$ 26,886</u>

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

LAKE REGION LAW ENFORCEMENT CENTER
Devils Lake, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Lake Region Law Enforcement Center, Devils Lake, North Dakota, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the Lake Region Law Enforcement Center. The enforcement center has considered all potential component units for which the enforcement center is financially accountable, and other organizations for which the nature and significance of their relationship with the enforcement center are such that exclusion would cause the enforcement center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Lake Region Law Enforcement Center to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Lake Region Law Enforcement Center.

As required by generally accepted accounting principles, the financial statements of the reporting entity include only the Lake Region Law Enforcement Center (the primary government), as there are no component units. The Lake Region Law Enforcement Center is a joint venture of Benson, Eddy, Nelson, Ramsey and Towner Counties and the City of Devils Lake formed under the provisions of North Dakota Century Code Chapter 12-44.1.

B. Basis of Presentation

Government-wide statements: The statement of net position and the statement of activities display information about the primary government, Lake Region Law Enforcement Center. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business type activities of the Center and for each function of the Center's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: Separate financial statements are provided for governmental funds. Separate statements for each fund category - governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The Law Enforcement Center reports the following major business-type fund:

Law Enforcement Center Fund. This is the center's primary operating fund. It accounts for all financial resources of the law enforcement enterprise, except those required to be accounted for in another fund.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The Law Enforcement Center reports the following major governmental fund:

Combined E-911/Wireless Fund. This fund accounts for activity of the Law Enforcement Centers Emergency 911 operations for land lines and cellular phones. Restricted revenue includes billings for E-911 services.

Additionally, the Law Enforcement Center reports the following fund type:

Agency Fund. This fund accounts for assets held by the center in a custodial capacity as an agent on behalf of others. The center's agency fund is used to account for activity at the jail commissary.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Center gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Law Enforcement Center considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Law Enforcement Center funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Law Enforcement Center's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

D. Deposits and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts and highly liquid short-term investments with original maturities of three months or less. Investments consist of certificates of deposit with original maturities in excess of three months and are stated at cost.

E. Capital Assets

Capital assets, which include property, buildings, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Assets	Years
Land	Indefinite
Buildings	50
Office Equipment	3 - 5
Equipment	5 - 15
Vehicles	5

F. Compensated Absences

Vacation leave is earned at the rate of one to two days per month depending on years of service. Up to 176 hours of vacation leave may be carried over. Sick leave benefits are earned at the rate of one day per month regardless of the years of service. An unlimited number of sick leave hours may be carried over and employees are paid for 25% of their accumulated sick, to a maximum of 240 hours of leave, at retirement. When intent to terminate employment is submitted, the employee must have 5 continuous years of service to be eligible for monetary compensation. Vested or accumulated vacation and sick leave is reported in government-wide statement of net position.

Vacation leave is earned as follows:

Years of Service	Hours per Month
0 through 48 Months	8
49 through 96 Months	10
97 through 180 Months	12
181 Months and Over	16

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts when applicable are amortized over the life of the bond on a straight-line basis. Bond issuance costs when applicable are recognized in the current period.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

H. Fund Balances / Net Position

Prior to GASB Statement No. 54, in the fund financial statements, the governmental funds reported reservations of fund balances for amounts that were not available for appropriation or were legally restricted by outside parties for use for a specific purpose. Designations of fund balances represented tentative management plans that were subject to change. GASB Statement No. 54 established new fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

Fund Balance Spending Policy:

It is the policy of the Law Enforcement Center to spend restricted resources first, followed by unrestricted resources. It is also the policy of the Board to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

Fund Balance Reporting and Governmental Fund Type Definitions

On March 11, 2009 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for fiscal periods that begin after June 15, 2010. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below.

CLASSIFICATION	DEFINITION	EXAMPLES
Non-spendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables (loans), endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. (b) Imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the governing board. Formal action is required to be taken to establish, modify or rescind a fund balance commitment.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the board and the business manager.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is fund balance that has not been reported in any other classification. (a) The General Fund is the only fund that can report a positive unassigned fund balance; (b) A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes report a positive unassigned fund balance;	Available for any remaining general fund expenditure.

Lake Region Law Enforcement Center did not have any non-spendable balances, assigned fund balances, committed or unassigned balances reported in the balance sheet at December 31, 2013.

Restricted Fund Balances – consist of the following item at December 31, 2013:

Restricted fund balances are shown by primary function on the balance sheet for public safety. Restricted fund balance in the combined E-911/wireless special revenue fund is restricted by enabling legislation (primarily state law for as to restrictions on those funds).

Net Position:

When both unrestricted and restricted resources are available for use, it is the entity’s policy to use restricted resources first, then unrestricted resources as they are needed.

Restrictions of net position shown in the net position statement are due to restrictions in state law as to how E-911/Wireless funds are to be used.

Unrestricted net position is primarily unrestricted amounts related to the Law Enforcement Center enterprise fund. The unrestricted net position is available to meet the entity’s ongoing obligations.

Net investment in capital assets is reported for capital assets less accumulated depreciation. The resources needed to repay this related debt must be provided from other sources, since the capital assets are not used to liquidate these liabilities. These assets are not available for future spending.

I. Interfund Transactions

In the governmental fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except reimbursements, are reported as transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGETS

Based upon available financial information and requests by the governing board, the Finance Administrator prepares the preliminary budget. The budget is prepared for the enterprise and the E911 special revenue fund by function and activity on the cash basis of accounting. The preliminary budget includes the proposed expenditures and the means of financing them. No legal requirement exists to budget those funds. All annual appropriations lapse at year-end.

BUDGET AMENDMENTS

The LEC amended the 2013 E911 special revenue budget on January 18, 2014 as follows:

Fund	REVENUE		
	Original Budget	Amendment	Amended Budget
Major Fund: E911 Fund	\$512,100	(\$129,440)	\$382,660

LAKE REGION LAW ENFORCEMENT CENTER
Notes to the Financial Statements - Continued

Fund	EXPENDITURES		
	Original Budget	Amendment	Amended Budget
Major Fund: E911 Fund	\$491,074	\$(95,272)	\$395,802

NOTE 3: DEPOSITS AND INVESTMENTS

In accordance with North Dakota Statutes, Lake Region Law Enforcement Center maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any Law Enforcement Center, city, township, school, park, or other political subdivision of the state of North Dakota. Whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by any other state of the United States or such other securities approved by the banking board.

At year ended December 31, 2013, the Law Enforcement Center's carrying amount of deposits was \$1,149,423 and the bank balances totaled \$1,185,359. Of the bank balances, \$638,664 was covered by Federal Depository Insurance. The remaining bank balances totaling \$546,695 were collateralized with securities held by the pledging financial institution's agent in the government's name. Certificates of deposit total \$282,500.

Credit Risk:

The Law Enforcement Center may invest idle funds as authorized in North Dakota Statutes, as follows:

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- (b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- (c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.

Concentration of Credit Risk:

The Law Enforcement Center does not have a limit on the amount it may invest in any one issuer.

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts due from other entities for services performed during the year ended December 31, 2013.

LAKE REGION LAW ENFORCEMENT CENTER
Notes to the Financial Statements - Continued

NOTE 5: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2013:

Business-type Activities (FY2013):	Balance January 1	Increases	Transfers	Decreases	Balance December 30
<i>Capital assets not being depreciated:</i>					
Land	\$ 87,447	\$ 72,256	\$ -	\$ -	\$ 159,703
Construction In Progress	-	19,300	-	-	19,300
Total Capital Assets, Not Being Depreciated	\$ 87,447	\$ 91,556	\$ -	\$ -	\$ 179,003
<i>Capital assets being depreciated:</i>					
Buildings	\$3,001,929	\$ -	\$ -	\$ -	\$3,001,929
Building Improvements	113,917	-	-	-	113,917
Vehicles	44,598	-	-	-	44,598
Equipment	235,809	-	-	-	235,809
Office Equipment	7,290	-	-	-	7,290
Total Capital Assets, Being Depreciated	\$3,403,543	\$ -	\$ -	\$ -	\$3,403,543
<i>Less Accumulated Depreciation for:</i>					
Buildings	\$ 996,480	\$ 60,039	\$ -	\$ -	\$1,056,519
Building Improvements	11,392	6,966	-	-	18,358
Vehicles	39,318	2,640	-	-	41,958
Equipment	123,164	16,373	-	-	139,537
Office Equipment	4,374	1,458	-	-	5,832
Total Accumulated Depreciation	\$1,174,728	\$ 87,476	\$ -	\$ -	\$1,262,204
Total Capital Assets Being Depreciated, Net	\$2,228,815	\$(87,476)	\$ -	\$ -	\$2,141,339
Business-type Activities - Capital Assets, Net	\$2,316,262	\$ 4,080	\$ -	\$ -	\$2,320,342

Governmental Activities (FY2013):	Balance January 1	Increases	Transfers	Decreases	Balance December 30
<i>Capital assets being depreciated:</i>					
Equipment	\$174,737	\$ -	\$ -	\$ -	\$174,737
<i>Less Accumulated Depreciation for:</i>					
Equipment	\$ 45,432	\$ 3,495	\$ -	\$ -	\$ 48,927
Total Capital Assets Being Depreciated, Net	\$129,305	\$(3,495)	\$ -	\$ -	\$125,810
Governmental Activities - Capital Assets, Net	\$129,305	\$(3,495)	\$ -	\$ -	\$125,810

All depreciation expenses for both governmental and business-type activities were charged to the public safety function.

NOTE 6: ACCOUNTS PAYABLE

Accounts payable consists of amounts on open account for goods and services received prior to December 31, 2013 and chargeable to appropriations for the years then ended, but paid subsequent to that date.

NOTE 7: INTEREST PAYABLE

Interest payable consists of the portion of interest accrued on lease payable balances in the law enforcement center fund outstanding at December 31, 2013.

NOTE 8: LEASE PAYABLE

Lease payable consists of the principal portion on lease payable balances in the law enforcement center fund outstanding at December 31, 2013.

LAKE REGION LAW ENFORCEMENT CENTER
Notes to the Financial Statements - Continued

NOTE 9: LONG-TERM DEBT

Changes in Long-Term Liabilities - During the year ended December 31, 2013, the following changes occurred in liabilities reported in long-term liabilities:

Governmental Activities:

Business-Type Activities Enterprise Activities	Balance 1-1-13	Increases	Decreases	Balance 12-31-13	Due Within One Year
Leases Payable	\$ 4,374	\$ -	\$ 1,458	\$ 2,916	\$ 1,537
Compensated Absences Payable *	103,057	-	31,464	71,593	14,318
TOTAL	\$107,431	\$ -	\$32,922	\$74,509	\$15,855

Governmental Activities	Balance 1-1-13	Increases	Decreases	Balance 12-31-13	Due Within One Year
Compensated Absences Payable *	\$11,782	\$2,866	\$ -	\$14,648	\$2,930

* - The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions at a reasonable cost.

Capital Leases - The primary government has entered into lease agreements as lessee for financing the acquisition of two copy machines (total principal cost of \$7,290). These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2013, were as follows:

GOVERNMENTAL ACTIVITIES		
Year Ending December 31	Capital Lease	
	Principal	Interest
2014	\$1,458	\$ 545
2015	1,458	546
TOTALS	\$2,916	\$1,091

NOTE 10: RISK MANAGEMENT

The Lake Region Law Enforcement Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The Law Enforcement Center pays an annual premium to NDRIF for its general liability. The coverage by NDRIF is limited to losses of two million dollars per occurrence for general liability.

The Lake Region Law Enforcement Center also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Law Enforcement Center pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides the Law Enforcement Center with blanket fidelity bond coverage in the amount of \$818,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

LAKE REGION LAW ENFORCEMENT CENTER
Notes to the Financial Statements - Continued

The Law Enforcement Center has workers compensation with the Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE 11: RETIREMENT PLAN

The Law Enforcement Center participates in a deferred compensation plan from Nationwide Retirement Solutions. Employees are obligated to contribute a minimum of 4% of their gross salary up to IRS allowed maximums, and the Law Enforcement Center will match up to 5%. The Law Enforcement Center's contributions to Nationwide Retirement Solutions the years ending December 31, 2013, 2012, and 2011 were \$28,435 \$38,599 and \$41,562 respectively, equal to the required contributions for the year.

NOTE 12: CHANGE IN REPORTING BASIS

In prior years, the LEC primary operating fund was reported as the general fund in governmental activities. The Lake Region Law Enforcement decided in FY2013 to change the basis of reporting to report the former general fund and governmental activities as an enterprise fund and business-type activities. Management believes a change to business-type fund and activities better reflects the balances and activities of the LEC primary operating fund. The majority of the LEC's income has averaged approximately 97% charges for service in the last few decades. This change in accounting principle is in accordance with GASB Statement 34, paragraphs 66 and 67. This restatement was shown as a restatement of beginning net position, in accordance with GASB Statement 34, note 13.

The cumulative effect of the accounting change to beginning net position for governmental activities before prior period adjustments to beginning net position for capital asset errors as outlined in Note 14:

	Governmental Activities
Governmental activities net position, as previously reported	\$ 217,530
Adjustments to restate the January 1 net position	
Add compensated absences	(11,782)
Net Position January 1, 2013 as restated before prior period adjustments	\$ 205,748

The cumulative effect of the accounting change to beginning net position for enterprise business-type activities is as follows:

	Business-Type Activities
Business-Type activities net position, as previously reported	\$ -
Adjustments to restate the January 1 net position	
Reclassify Law Enforcement Center governmental balance fund	1,326,745
Capital asset cost adjustment	2,316,263
Capital lease adjustment	(4,374)
Interest payable adjustment	(295)
Compensated absences	(103,058)
Cumulative effect of accounting change- Net Position January 1	\$3,535,281

NOTE 13: PRIOR PERIOD ADJUSTMENTS

The LEC fund previously reported as the general fund was also reclassified as an enterprise fund. Government-wide adjustments were made to the beginning fund balance to include the 9-1-1 fund's share of compensated absence. Additionally, an adjustment was made to the net position balance to include unrecorded capital assets.

The effect of the prior period adjustments to beginning net position is as follows:

	Governmental Activities
Governmental activities net position, as previously reported	\$217,530
Adjustments to restate the January 1 fund balance	
Add unrecorded capital assets	129,305
Add compensated absence due to accounting change	(11,782)
Net position January 1, 2013 as restated	<u>\$335,053</u>

LAKE REGION LAW ENFORCEMENT CENTER
Devils Lake, North Dakota

BUDGETARY COMPARISON SCHEDULE
COMBINED E-911/WIRELESS FUND
For the Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
911 Assessments	\$ 512,100	\$ 382,660	\$ 347,524	\$ (35,136)
<u>Expenditures:</u>				
Current:				
Public Safety	\$ 491,074	\$ 395,802	\$ 378,786	\$ 17,016
Excess (Deficiency) of Revenues Over Expenditures	\$ 21,026	\$ (13,142)	\$ (31,262)	\$ (18,120)
Net Change in Fund Balances	\$ 21,026	\$ (13,142)	\$ (31,262)	\$ (18,120)
Fund Balance - January 1	\$ 217,530	\$ 217,530	\$ 217,530	\$ -
Fund Balance - December 31	\$ 238,556	\$ 204,388	\$ 186,268	\$ (18,120)

STATE AUDITOR

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STATE CAPITOL
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BISMARCK, NORTH DAKOTA 58505

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*

Governing Board
Lake Region Law Enforcement Center
Devils Lake, North Dakota

We have audited in accordance with the 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, the business-type activities, and the major fund of the Lake Region Law Enforcement Center as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Lake Region Law Enforcement Center's basic financial statements, and have issued our report thereon dated August 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lake Region Law Enforcement Center's internal control over financial reporting (internal control) 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 Lake Region Law Enforcement Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Lake Region Law Enforcement Center's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying *schedule of findings and questioned costs* to be a material weakness [2013-03].

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying *schedule of findings and questioned costs* to be significant deficiencies [2013-01] and [2013-02].

LAKE REGION LAW ENFORCEMENT CENTER

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* - Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake Region Law Enforcement Center's 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*.

Lake Region Law Enforcement Center's Response to Findings

Lake Region Law Enforcement Center's response to the findings identified in our audit is described in the accompanying *schedule of findings and questioned costs*. Lake Region Law Enforcement Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose



Robert R. Peterson
State Auditor

Fargo, North Dakota
August 13, 2014

LAKE REGION LAW ENFORCEMENT CENTER
Devils Lake, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued:

Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Major Governmental Fund	Unmodified

Internal control over financial reporting:

Material weaknesses identified?	<u> X </u> Yes	<u> </u> None noted
Significant deficiencies identified not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> None noted
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> None noted

Section II - Financial Statement Findings

2013-01 – OVERSTATED REVENUE AND EXPENDITURES

Condition:

Per review of the profit and loss statement for the general fund, there were transfers between bank accounts shown as uncategorized income of \$1,083,021 and uncategorized expenditures of \$1,085,537.

Effect:

Revenue and expenditures were overstated by uncategorized income of \$1,083,021 and uncategorized expenditures of \$1,085,537.

Cause:

Client records transfer of funds/assets between bank accounts as revenue and expenditure instead of transfers. This is done to move funds to the bank that the LEC uses for payroll direct deposit. However, these amounts had been entered before the prior period recommendation. Revenue and expenses appear to be properly recorded towards the end of FY2013.

Criteria:

Revenues, operating expenditures, and interfund operating and residual equity transfers are the result of transactions or events that affect financial resources. Governmental fund revenues can be from exchange transactions (charges for services, investment income, etc.) or from non-exchange transactions (taxes, fees, permits, etc.). Governmental fund expenditures include operating, capital, and debt service expenditures (GASB Statement No.11).

Transfers between bank accounts does not affect income or expenditures as there is no increase or decrease in expenditures, revenues, assets or liabilities.

Recommendation:

We recommend that the Finance Administrator refrain from charging expenditures and recording revenue when transfers need to be made between bank accounts to avoid overstating both expenditures and revenue. Cash or investment movements between bank accounts or within the same account should be recorded using only asset accounts and/or transfers.

Client Response:

After discussion with the Auditor's on this recommendation, we are adjusting the categorization to accurately transfer funds between accounts while maintaining accurate profit/loss statements for salary, taxes and benefits.

2013-02 - SEGREGATION OF DUTIES

Condition:

The Law Enforcement Center has one secretary and one director responsible for the primary accounting functions. A lack of segregation of duties exists as two employees are responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and perform bank reconciliations.

Criteria:

Proper internal control surrounding custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates that there should be sufficient accounting personnel so duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the law enforcement center.

Cause:

Lake Region LEC does not have the size to hire enough staff to effectively segregate all accounting duties.

Effect:

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the Law Enforcement Center's financial condition, whether due to error or fraud.

Recommendation:

Due to the size, complexity and the economic realities of the Law Enforcement Center, it is presently not feasible to obtain proper separation of duties. We recommend that if it becomes feasible to segregate duties in the future, that duties are segregated to the extent possible to reduce the potential risk of loss.

Client Response:

The Board of the Lake Region Law Enforcement Center has been aware of this deficiency for several years; however, as noted in the recommendation, due to our size desired segregation is not possible. We have attempted to accommodate the segregation the duties with the change in administration by adjusting duties between the Finance Administrator, Administrative Assistant and clerical staff. We have also separated signatory duties between Board Chairman, Vice Chairman, Operations Administrator, Finance Administrator, and Administrative Assistant in order to provide further segregation.

2013-03 – PRIOR PERIOD ADJUSTMENTS

Condition:

The Law Enforcement Center adjusted the capital assets balances of governmental activities by a total \$220,169 in capital assets cost and accumulated depreciation to properly include previously unrecorded capital assets.

Prior period adjustments of \$220,167 (gross) consist of the following:

- Governmental Activities -- total overall net increase to beginning net position totaling \$129,305 consists of an increase of equipment cost of \$174,737 and a decrease in accumulated depreciation of equipment of \$45,432;

LAKE REGION LAW ENFORCEMENT CENTER
Schedule of Findings and Questioned Costs - Continued

Effect:

The Center's capital assets in governmental activities were misstated by a gross amount of \$220,169. The net adjustment to beginning net position of \$129,305 related to the capital asset errors was above the planning materiality of the government-wide statements.

Cause:

Recording of capital assets for the E911 fund was missed at the time of purchase. Also, there is lack of reconciliation of the capital asset listing to the department head listing of inventory at or near year-end. Capital asset records were not reviewed by another individual besides the preparer.

Criteria:

Important guidance relating to internal control is contained in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This framework includes discussions about the importance of adequate control activities. Proper internal control includes maintaining up to date accurate capital asset records for governmental activities and business-type activities/funds including annual additions, deletions, depreciation and year-end balances.

Additionally, important criteria/guidance includes accounting principles generally accepted in the United States of America -- those principles require that accounting records are properly maintained by management, and financial statements are fairly presented in accordance with GAAP.

The review of capital asset listing by department heads to ensure that Lake Region Law Enforcement Center reports an accurate amount in capital assets is an integral internal control activity over financial statement reporting.

Additionally, proper reporting of capital assets in accordance with accounting principles generally accepted in the United States of America is the responsibility of management.

Recommendation:

We recommend that the Lake Region Law Enforcement Center perform reconciliations between the capital asset listing and the department head inventory listing at or near year-end. Also, acquisition dates should be updated to correct dates that are inaccurate in the capital assets module. Depreciation of assets should be reviewed to ensure proper calculation.

Overall, capital asset records should be reviewed by someone other than the preparer for accuracy on at least an annual basis.

Client Response:

Current capital assets have been updated accordingly with 911 assets now categorize as recommended. The Lake Region Law Enforcement Center will request authorization for an outside review on an annual basis.