

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA

YEAR ENDED DECEMBER 31, 2009

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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**CENTRAL MINNESOTA
COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

Year Ended December 31, 2009



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

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**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

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**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

ORGANIZATION SCHEDULE
2009

	<u>Position</u>	<u>County</u>
Joint Powers Board		
J. Mark Wedel		Aitkin County
Paul Bailey		Aitkin County
Laurie Westerlund		Aitkin County
Galen Tveit		Aitkin County
Brian Napstad		Aitkin County
Rachel Nystrom		Crow Wing County
Rosemary Franzen		Crow Wing County
Paul Thiede		Crow Wing County
Phillip Trusty		Crow Wing County
Doug Houge		Crow Wing County
Thomas Wenzel		Morrison County
Jeff Schilling		Morrison County
Richard Collins		Morrison County
Donald Meyer		Morrison County
Duane Johnson		Morrison County
Executive Committee		
J. Mark Wedel	Chair	Aitkin County
Duane Johnson	Vice Chair	Morrison County
Laurie Westerlund	Member	Aitkin County
Paul Thiede	Member	Crow Wing County
Rachel Nystrom	Member	Crow Wing County
Donald Meyer	Member	Morrison County
Nancy Johnson-Houg	Member	Advisory Board
Director		
Thomas Rosenthal		

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Joint Powers Board
Central Minnesota Community Corrections

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Central Minnesota Community Corrections as of and for the year ended December 31, 2009, which collectively comprise the Community Corrections' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Community Corrections' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 the Central Minnesota Community Corrections as of December 31, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

November 19, 2010

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009
(Unaudited)**

This section of the annual financial report presents our discussion and analysis of the Central Minnesota Community Corrections' financial performance during the fiscal year that ended December 31, 2009. The Management's Discussion and Analysis (MD&A) is an element of required supplementary information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, issued in June 1999. Certain comparative information between the current year, 2009, and the prior year, 2008, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2009 fiscal year include the following:

- Government-wide net assets decreased by 42.2 percent from the prior year.
- Overall fund level revenues totaled \$2,994,064 and were \$41,709 less than expenditures.
- The General Fund's fund balance decreased \$40,765 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts--the Independent Auditor's Report; the MD&A (this section), which is required supplementary information; the basic financial statements; and a budgetary comparison statement, which is also required supplementary information. The basic financial statements include the statement of net assets and governmental fund balance sheet and the statement of activities and statement of governmental fund revenues, expenditures, and changes in fund balance.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Figure A-1 summarizes the major features of the Community Corrections’ financial statements, including the portion of the Community Corrections’ activities they cover and the types of information they contain. The remainder of this overview section of the MD&A highlights the structure and contents of each of the statements.

**Figure A-1
Major Features of the Government-Wide
and Fund Financial Statements**

Type of Statements	Government-Wide	Governmental Fund
Scope	Entire government	The activities of the government that are not proprietary or fiduciary
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures, and changes in fund balance
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included

Government-Wide and Fund Financial Statements

The financial statements included in this report combine the governmental fund and government-wide activities into two statements.

The governmental fund, or General Fund, activity includes the Community Corrections’ basic services which generally focus on (1) how cash and other financial assets can be readily converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Community Corrections’ programs.

The government-wide statements report information about the Community Corrections as a whole using accounting methods similar to those used by private-sector companies. These statements include all of the assets and liabilities of the Community Corrections, including long-term activity. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

FINANCIAL ANALYSIS OF THE COMMUNITY CORRECTIONS AS A WHOLE

Net Assets

The Community Corrections' net assets were \$579,941 on December 31, 2009.

**Table A-2
Net Assets**

	2009	2008
Assets		
Current	\$ 1,117,727	\$ 1,250,610
Capital assets	31,338	44,010
Total Assets	\$ 1,149,065	\$ 1,294,620
Liabilities		
Long-term	\$ 372,041	\$ 14,134
Other	197,083	277,475
Total Liabilities	\$ 569,124	\$ 291,609
Net Assets		
Invested in capital assets	\$ 31,338	\$ 44,010
Unrestricted	548,603	959,001
Total Net Assets	\$ 579,941	\$ 1,003,011

**Table A-3
Change in Net Assets**

	2009	2008
Revenues		
Intergovernmental	\$ 2,642,370	\$ 2,819,214
Charges for services	334,126	354,896
Other	18,512	135,505
Total Revenues	\$ 2,995,008	\$ 3,309,615
Expenses		
Public safety	3,418,078	3,120,505
Excess of Revenues Over (Under) Expenses	\$ (423,070)	\$ 189,110
Net Assets - January 1	1,003,011	813,901
Net Assets - December 31	\$ 579,941	\$ 1,003,011

FINANCIAL ANALYSIS OF THE COMMUNITY CORRECTIONS AT THE FUND LEVEL

The financial performance of the Community Corrections as a whole is reflected in its governmental fund as well. The General Fund, which is the only governmental fund of the Community Corrections, includes the primary operations of the Community Corrections in providing corrections services to local governments in central Minnesota. As the Community Corrections completed the year, the General Fund reported a fund balance of \$1,059,578.

The following schedule presents a comparative summary of General Fund revenues:

**Table A-4
General Fund Revenues**

Function	Year Ended		Change	
	December 31, 2009	December 31, 2008	Increase/ (Decrease)	Percent (%)
Intergovernmental	\$ 2,642,370	\$ 2,908,654	\$ (266,284)	(9.2)
Charges for services	334,126	354,896	(20,770)	(5.9)
Miscellaneous	17,568	135,505	(117,937)	(87.0)
Total General Fund Revenues	<u>\$ 2,994,064</u>	<u>\$ 3,399,055</u>	<u>\$ (404,991)</u>	(11.9)

The following schedule presents a summary of General Fund expenditures:

**Table A-5
General Fund Expenditures**

Function	Year Ended		Change	
	December 31, 2009	December 31, 2008	Increase/ (Decrease)	Percent (%)
Public safety	<u>\$ 3,035,773</u>	<u>\$ 3,114,597</u>	<u>\$ (78,824)</u>	(2.5)

The Community Corrections adopts an annual budget for the General Fund on the modified accrual basis of accounting. Budgets may be amended during the year with proper approval. The Community Corrections' budget was amended on July 15, 2009. The expenditure budget was decreased by \$150,708, and the revenue budget was decreased by \$228,250.

CAPITAL ASSETS

The Community Corrections' investment in capital assets at December 31, 2009, was \$31,338, net of accumulated depreciation. Depreciation expense for the year was \$12,672.

Table A-6
Capital Assets, Net of Depreciation

	<u>2009</u>	<u>2008</u>
Office furniture and equipment	\$ 23,065	\$ 31,127
Automotive	<u>8,273</u>	<u>12,883</u>
Total	<u>\$ 31,338</u>	<u>\$ 44,010</u>

FACTORS BEARING ON THE COMMUNITY CORRECTIONS' FUTURE

Central Minnesota Community Corrections is dependent on the State of Minnesota for a significant portion of its revenue. The State of Minnesota, through the Department of Corrections, provides both an operational subsidy and targeted grants for specific components of Community Corrections' services. The organization anticipates some degree of reserve spending in the coming year.

CONTACTING THE COMMUNITY CORRECTIONS' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the Community Corrections' finances and to demonstrate the Community Corrections' accountability for the money it receives. If you have questions about this report, or need additional financial information, contact Tom Rosenthal, Interim Director, at 218-824-1135.

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BASIC FINANCIAL STATEMENTS

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**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

EXHIBIT 1

**GENERAL FUND BALANCE SHEET
AND GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2009**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 858,714	\$ -	\$ 858,714
Due from other governments	259,013	-	259,013
Capital assets			
Depreciable - net	-	31,338	31,338
Total Assets	\$ 1,117,727	\$ 31,338	\$ 1,149,065
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 23,675	\$ -	\$ 23,675
Salaries payable	29,938	-	29,938
Compensated absences payable	-	138,934	138,934
Due to other governments	4,536	-	4,536
Long-term liabilities			
Compensated absences payable due after one year	-	15,437	15,437
Other postemployment benefits payable due after one year	-	356,604	356,604
Total Liabilities	\$ 58,149	\$ 510,975	\$ 569,124
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	1,059,578	\$ (1,059,578)	
Total Liabilities and Fund Balance	\$ 1,117,727		
Net Assets			
Invested in capital assets		\$ 31,338	\$ 31,338
Unrestricted		548,603	548,603
Total Net Assets		\$ 579,941	\$ 579,941
Reconciliation of the General Fund Balance to Net Assets			
Fund Balance - Governmental Fund			\$ 1,059,578
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.			31,338
Long-term liabilities, including compensated absences and other postemployment benefits, are not due and payable in the current period and, therefore, are not reported in the governmental fund.			(510,975)
Net Assets - Governmental Activities			\$ 579,941

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

EXHIBIT 2

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2009**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 2,642,370	\$ -	\$ 2,642,370
Charges for services	334,126	-	334,126
Miscellaneous	17,568	-	17,568
Total Revenues	\$ 2,994,064	\$ -	\$ 2,994,064
Expenditures/Expenses			
Public safety	3,035,773	382,305	3,418,078
Excess of Revenues Over (Under) Expenditures	\$ (41,709)	\$ (382,305)	\$ (424,014)
Other Financing Sources/General Revenues			
Proceeds/Gain on sale of capital assets	944	-	944
Net Change in Fund Balance/Net Assets	\$ (40,765)	\$ (382,305)	\$ (423,070)
Fund Balance/Net Assets - January 1	1,100,343	(97,332)	1,003,011
Fund Balance/Net Assets - December 31	\$ 1,059,578	\$ (479,637)	\$ 579,941
 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			\$ (40,765)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Current year depreciation			(12,672)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.			
Increase in compensated absences payable			(13,029)
Increase in other postemployment benefits payable			(356,604)
Change in Net Assets of Governmental Activities			\$ (423,070)

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009**

1. Summary of Significant Accounting Policies

Central Minnesota Community Corrections' financial statements are prepared in accordance with generally accepted accounting principles (GAAP). 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 Central Minnesota Community Corrections are discussed below.

A. Financial Reporting Entity

A joint Central Minnesota Community Corrections was established in 1974, pursuant to Minn. Stat. § 471.59, between Crow Wing and Morrison Counties. Aitkin County joined the Community Corrections on January 1, 1992, to form the Central Minnesota Community Corrections. The Central Minnesota Community Corrections provides correction services to adults under the jurisdiction of the counties that are parties to the agreement and the Minnesota Department of Corrections.

The management of the Central Minnesota Community Corrections is vested in a Joint Powers Board, composed of the five Commissioners from each participating county. No single member county retains control over the operations or has oversight responsibility for the Community Corrections. The Joint Powers Board appoints an Executive Committee, which has been delegated by the Joint Powers Board all powers and duties necessary for the day-to-day operations.

The Joint Powers Board has contracted with Crow Wing County to act as its fiscal agent.

B. Basic Financial Statements

Basic financial statements include information on the Central Minnesota Community Corrections' activities as a whole and information on the individual fund of the Central Minnesota Community Corrections. These separate presentations are reported in different columns. Each of the statements 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 Central Minnesota Community Corrections. The

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

governmental activities columns are reported on the full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Central Minnesota Community Corrections' net assets are reported in two parts: invested in capital assets and unrestricted net assets. The statement of activities demonstrates the degree to which the expenses of the Central Minnesota Community Corrections are offset by revenues. The balance sheet and statement of revenues, expenditures, and changes in fund balance for the General Fund are presented on the modified accrual basis and report current financial resources.

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Central Minnesota Community Corrections considers all revenues as available if collected within 60 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, except for compensated absences, which are recognized as expenditures to the extent that they have matured.

D. Budgetary Data

The Joint Powers Board of the Central Minnesota Community Corrections adopts estimated expenditure budgets for the General Fund on the modified accrual basis of accounting.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, and Net Assets or Equity

1. Assets

Cash is on deposit with Crow Wing County.

The amounts due from other governments, totaling \$259,013, are receivables from the counties that are parties to the joint powers agreement and grants receivable from the State of Minnesota.

All capital assets are valued at their historical cost or estimated historical cost. On the fund level financial statements, capital assets are recorded as expenditures at the time of their purchase. Capital assets are defined by the Central Minnesota Community Corrections as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three 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. Depreciation has been recorded on the government-wide financial statements relating to capital assets.

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>
Office furniture and equipment	3 - 20
Automotive	3 - 20

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity (Continued)

2. Liabilities

Long-term liabilities expected to be financed from the governmental fund are accounted for on the government-wide financial statements. Deferred revenue is reported on the fund level financial statements in connection with receivables for revenues not considered available to liquidate liabilities of the current period.

3. Equity

For the governmental fund, the Central Minnesota Community Corrections reports an unreserved, undesignated fund balance account to indicate the portion of equity available for budgeting and expending in future periods. The government-wide financial statements equity section is broken out into two categories: net assets invested in capital assets and unrestricted net assets.

F. Revenues and Expenditures

1. Revenues

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs. Under the modified accrual basis of accounting, revenue is not recognized in the financial statements unless it is available to finance current expenditures.

Intergovernmental

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

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

F. Revenues and Expenditures

1. Revenues

Intergovernmental (Continued)

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

Exchange Transactions

Charges for services and miscellaneous revenues are recognized when earned.

2. Expenditures

Expenditure recognition for governmental funds includes only amounts represented by current liabilities. Since noncurrent liabilities do not affect net current assets, they are not recognized as governmental fund expenditures or fund liabilities. They are reported as liabilities on the government-wide financial statements.

Compensated absences are considered expenditures when paid to employees. Earned but unpaid vacation is shown as a liability on the government-wide financial statements. Unvested sick leave and compensatory time are not reported in the financial statements.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

2. Detailed Notes

A. Assets

Cash on Deposit with Crow Wing County

The Central Minnesota Community Corrections is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Crow Wing County Board of Commissioners and the Central Minnesota Community Corrections Board. Minnesota statutes require that all deposits be covered by insurance, surety bond, or collateral.

The Central Minnesota Community Corrections may invest in the types of securities authorized by Minn. Stat. §§ 118A.04 and 118A.05.

Additional disclosures, as required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, are disclosed on an entity-wide basis in the Crow Wing County annual financial report.

Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2009, are:

	Balance January 1, 2009	Additions	Deletions	Balance December 31, 2009
Capital assets depreciated				
Office furniture and equipment	\$ 95,386	\$ -	\$ 36,615	\$ 58,771
Automotive	47,664	-	22,280	25,384
Total capital assets depreciated	\$ 143,050	\$ -	\$ 58,895	\$ 84,155
Less: accumulated depreciation for				
Office furniture and equipment	\$ 64,259	\$ 8,062	\$ 36,615	\$ 35,706
Automotive	34,781	4,610	22,280	17,111
Total accumulated depreciation	\$ 99,040	\$ 12,672	\$ 58,895	\$ 52,817
Total Capital Assets, Net	\$ 44,010	\$ (12,672)	\$ -	\$ 31,338

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

2. Detailed Notes (Continued)

B. Liabilities

Operating Leases

The Central Minnesota Community Corrections had an operating lease with GJW Enterprises, LLC, for the rental of facilities for administrative offices. The lease, effective from September 1, 2003, through August 31, 2006, was renewed for another three-year term and required monthly rent of \$2,600. This lease was not renewed. Crow Wing County is now providing office space to the Central Minnesota Community Corrections for the administrative office.

The Central Minnesota Community Corrections entered into an operating lease with Marco Business Products, Inc., for rental of server systems and hard drives. The lease is for 60 months beginning March 2007. Total costs were \$21,636 for the year ended December 31, 2009. The future minimum lease payments for this lease are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2010	\$ 21,636
2011	21,636
2012	<u>3,606</u>
Total	<u>\$ 46,878</u>

Compensated Absences

Under the Central Minnesota Community Corrections' personnel policies and union contracts, employees are granted vacation leave in varying amounts based on their length of service.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

2. Detailed Notes

B. Liabilities

Compensated Absences (Continued)

The Central Minnesota Community Corrections pays unused, accumulated vacation to employees upon termination. Sick leave is available to employees in case of illness-related absences. Sick leave is not paid to employees at termination. Unused, accumulated vacation is accrued as compensated absences payable on the government-wide financial statements. Changes in compensated absences during 2009 were:

Payable at January 1	\$ 141,342
Net increase during 2009	<u>13,029</u>
Payable at December 31	<u>\$ 154,371</u>

Of the total compensated absences of \$154,371, the amount due within one year is \$138,934.

3. Pension Plans

A. Plan Description

All full-time and certain part-time employees of the Central Minnesota Community Corrections are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. Members who are employed in a county correctional institution as a correctional guard of officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of a joint jailer/dispatcher and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

3. Pension Plans

A. Plan Description (Continued)

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all Public Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

3. Pension Plans (Continued)

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The Central Minnesota Community Corrections makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The Central Minnesota Community Corrections is required to contribute the following percentages of annual covered payroll in 2009:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.75
Public Employees Correctional Fund	8.75

The Central Minnesota Community Corrections' contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund and the Public Employees Correctional Fund were:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Public Employees Retirement Fund	\$ 134,688	\$ 125,112	\$ 110,186
Public Employees Correctional Fund	-	-	20,084

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

4. Risk Management

The Central Minnesota 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. The Central Minnesota Community Corrections has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT), formerly the Minnesota Counties Insurance Trust, to

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

4. Risk Management (Continued)

cover its workers' compensation and property and casualty liabilities. The Central Minnesota Community Corrections purchases commercial insurance for other risks of loss. There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

The Workers' Compensation Division of MCIT is self-sustaining based on premiums charged, so that total contributions plus compounded earnings on these contributions equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$430,000 per claim in 2009 and \$450,000 per claim in 2010. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Central Minnesota Community Corrections in a method and amount to be determined by MCIT.

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

5. Other Postemployment Benefits Other Than Pensions

Plan Description

The Central Minnesota Community Corrections provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The Central Minnesota Community Corrections provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Active employees who retire from the Community Corrections when eligible to receive a retirement benefit from PERA (or similar plan) and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their spouse/partner under the Community Corrections' health benefits program. Pursuant to the provisions on the plan, the schedule below shows the cost to the Central Minnesota Community Corrections:

<u>Retiree and Spouse</u>	<u>Cost</u>
7 years of service	1/3 of premium for life
15 years of service	2/3 of premium for life
25 years of service	100 percent of premium for life

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

5. Other Postemployment Benefits Other Than Pensions

Plan Description (Continued)

As of January 1, 2009, there were approximately 45 participants in the plan. Three retirees and two spouses are receiving health benefits from the Central Minnesota Community Corrections' health plan.

In 2009, the Central Minnesota Community Corrections implemented the requirements of a new accounting statement GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Funding Policy

Other postemployment benefits (OPEB) have historically been funded on a pay-as-you-go basis (PAYGO). Under GASB Statement 45, the Central Minnesota Community Corrections may set up a trust and pre-fund the benefits. There is no requirement to pre-fund benefits under GASB Statement 45. For fiscal year 2009, the Central Minnesota Community Corrections contributed \$32,358 to the plan. Results throughout the actuarial report assume continued funding under PAYGO.

Annual OPEB Cost and Net OPEB Obligation

The Central Minnesota Community Corrections' annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Central Minnesota Community Corrections' annual OPEB cost of 2009, the amount actually contributed to the plan, and changes in the Community Corrections' net OPEB obligation:

ARC	\$ 388,962
Interest on net OPEB obligation	-
Adjustment to ARC	-
	<hr/>
Annual OPEB cost (expense)	\$ 388,962
Contributions made	(32,358)
	<hr/>
Increase in net OPEB obligation	\$ 356,604
Net OPEB Obligation - Beginning of the Year	-
	<hr/>
Net OPEB Obligation - End of the Year	<u>\$ 356,604</u>

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

5. Other Postemployment Benefits Other Than Pensions

Annual OPEB Cost and Net OPEB Obligation (Continued)

The Central Minnesota Community Corrections' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 were as follows:

Fiscal Year Ended December 31	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 388,962	\$ 32,358	8.3%	\$ 356,604

Funded Status and Funding Progress

The Central Minnesota Community Corrections' currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of the assets is zero. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2009	\$ -	\$ 3,559,803	\$ 3,559,803	0.0%	\$ 1,924,204	185.0%

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

5. Other Postemployment Benefits Other Than Pensions

Actuarial Methods and Assumptions (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the January 1, 2009, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5 percent discount rate, which is based on the estimated long-term investment yield on the general assets of the Central Minnesota Community Corrections. The annual health care cost trend rate is 9.0 percent initially, reduced incrementally to an ultimate rate of 5.0 percent after 8 years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30-year period.

REQUIRED SUPPLEMENTARY INFORMATION

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**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental				
Federal grants				
Juvenile Accountability Incentive Block Grant	\$ 18,014	\$ 18,014	\$ 13,146	\$ (4,868)
State grants and aids				
PERA rate increase aid	\$ -	\$ -	\$ 5,992	\$ 5,992
Minnesota Department of Corrections	1,952,324	1,828,094	1,752,828	(75,266)
Minnesota Department of Trial Courts	205,190	205,190	216,378	11,188
Total state grants and aids	\$ 2,157,514	\$ 2,033,284	\$ 1,975,198	\$ (58,086)
Local apportionment				
Aitkin County	\$ 213,388	\$ 188,423	\$ 187,936	\$ (487)
Crow Wing County	353,767	305,918	284,838	(21,080)
Morrison County	212,458	181,252	181,252	-
Total local apportionment	\$ 779,613	\$ 675,593	\$ 654,026	\$ (21,567)
Charges for services	\$ 399,312	\$ 399,312	\$ 334,126	\$ (65,186)
Miscellaneous	15,000	15,000	17,568	2,568
Total Revenues	\$ 3,369,453	\$ 3,141,203	\$ 2,994,064	\$ (147,139)
Expenditures				
Current				
Public safety	3,422,701	3,271,993	3,035,773	236,220
Excess of Revenues Over (Under)	\$ (53,248)	\$ (130,790)	\$ (41,709)	\$ 89,081
Other Financing Sources				
Proceeds on sale of capital assets	-	-	944	944
Net Change in Fund Balance	\$ (53,248)	\$ (130,790)	\$ (40,765)	\$ 90,025
Fund Balance - January 1	1,100,343	1,100,343	1,100,343	-
Fund Balance - December 31	\$ 1,047,095	\$ 969,553	\$ 1,059,578	\$ 90,025

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

Schedule 2

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2009**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2009	\$ -	\$ 3,559,803	\$ 3,559,803	0.0%	\$ 1,924,204	185.0%

The most recent actuarial valuation date was January 1, 2009.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009**

Budgetary Information

The Central Minnesota Community Corrections adopts an annual budget for the General Fund. The budget is prepared on the modified accrual basis of accounting.

Based on a process established by the Central Minnesota Community Corrections, the Director prepares a budget for the Community Corrections' expected revenues and expenditures. After review, analysis, and discussions with the Executive Committee, the Director's proposed budget is presented to the Central Minnesota Community Corrections' Board for review. The Central Minnesota Community Corrections' Board holds a public hearing, and a final budget must be prepared and adopted no later than December 31.

The overall budget is prepared by fund, function, and department. The legal level of budgetary control--the level at which expenditures may not legally exceed appropriations--is the fund level. Budgets may be amended during the year with proper approval.

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**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

Schedule 3

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2009**

OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved, designated, and undesignated are being replaced by nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for the Central Minnesota Community Corrections for the year ending December 31, 2011.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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REPORT ON MINNESOTA LEGAL COMPLIANCE

Joint Powers Board
Central Minnesota Community Corrections

We have audited the financial statements of the governmental activities and the General Fund of the Central Minnesota Community Corrections as of and for the year ended December 31, 2009, which collectively comprise the Community Corrections' basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in contracting and bidding, deposits and investments, public indebtedness, and claims and disbursements because they were tested in conjunction with the audit of the financial statements of Crow Wing County.

The results of our tests indicate that, for the items tested, the Central Minnesota Community Corrections complied with the material terms and conditions of applicable legal provisions.

In the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to the Central Minnesota Community Corrections, and it is reported for that purpose.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 19, 2010