

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

CENTRAL MINNESOTA
COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA

YEAR ENDED DECEMBER 31, 2014

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

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

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

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**CENTRAL MINNESOTA
COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

Year Ended December 31, 2014



**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
2014**

	<u>Position</u>	<u>County</u>
Joint Powers Board		
J. Mark Wedel	Member	Aitkin County
Anne Marcotte	Member	Aitkin County
Laurie Westerlund	Member	Aitkin County
Donald Niemi	Member	Aitkin County
Brian Napstad	Member	Aitkin County
Paul Koering	Member	Crow Wing County
Paul Thiede	Member	Crow Wing County
Rachel Nystrom	Member	Crow Wing County
Rosemary Franzen	Member	Crow Wing County
Doug Houge	Member	Crow Wing County
Kevin Maurer	Member	Morrison County
Jeffrey Jelinski	Member	Morrison County
Randy Winscher	Member	Morrison County
Donald Meyer	Vice-Chair	Morrison County
Duane Johnson	Chair	Morrison County
Executive Committee		
J. Mark Wedel	Member	Aitkin County
Duane Johnson	Member	Morrison County
Donald Meyer	Member	Morrison County
Laurie Westerlund	Vice-Chair	Aitkin County
Paul Thiede	Member	Crow Wing County
Rachel Nystrom	Chair	Crow Wing County
Jerry Negen	Member	Advisory Board
CMCC		
Tom Rosenthal	Director	
Elizabeth DeRuyck	Associate Director	
Nicole Kern	Associate Director	

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Joint Powers Board
Central Minnesota Community Corrections
Brainerd, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of Central Minnesota Community Corrections as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Community Corrections' basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Community Corrections' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in

the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Community Corrections' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Central Minnesota Community Corrections as of December 31, 2014, 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.

Other Matters

Required Supplementary Information

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

November 5, 2015

/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, 2014
(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, 2014. 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, 2014, and the prior year, 2013, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2014 fiscal year include the following:

- Government-wide net position decreased by 41.3 percent from the prior year.
- Overall fund level revenues totaled \$2,863,339 and were \$58,289 less than expenditures.
- The General Fund's fund balance decreased \$58,289 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts--Independent Auditor's Report; the MD&A (this section), which is required supplementary information; the basic financial statements; and a budgetary comparison schedule, which is also required supplementary information. The basic financial statements include the General Fund Balance Sheet and Governmental Activities Statement of Net Position and the General Fund Revenues, Expenditures, and Changes in Fund Balance and Governmental Activities Statement of Activities.

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 position 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, 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 Position

The Community Corrections' net position was \$(969,697) on December 31, 2014.

**Table A-2
Net Position**

	2014	2013
Assets		
Current	\$ 1,077,499	\$ 1,127,039
Capital assets	495	2,477
Total Assets	\$ 1,077,994	\$ 1,129,516
Liabilities		
Long-term	\$ 1,674,259	\$ 1,481,407
Other	373,432	334,467
Total Liabilities	\$ 2,047,691	\$ 1,815,874
Net Position		
Net investment in capital assets	\$ 495	\$ 2,477
Unrestricted	(970,192)	(688,835)
Total Net Position	\$ (969,697)	\$ (686,358)

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

	2014	2013
Revenues		
Intergovernmental	\$ 2,550,681	\$ 2,502,559
Charges for services	301,349	344,315
Miscellaneous	11,309	16,166
Total Revenues	\$ 2,863,339	\$ 2,863,040
Expenses		
Public safety	3,146,678	2,994,240
Change in Net Position	\$ (283,339)	\$ (131,200)
Net Position - January 1	(686,358)	(555,158)
Net Position - December 31	\$ (969,697)	\$ (686,358)

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 \$990,285.

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

**Table A-4
General Fund Revenues**

Function	Year Ended		Change	
	December 31, 2014	December 31, 2013	Increase/ (Decrease)	Percent (%)
Intergovernmental	\$ 2,550,681	\$ 2,502,559	\$ 48,122	1.92
Charges for services	301,349	344,315	(42,966)	(12.48)
Miscellaneous	11,309	16,166	(4,857)	(30.04)
Total General Fund Revenues	\$ 2,863,339	\$ 2,863,040	\$ 299	0.01

The following schedule presents a summary of General Fund expenditures:

**Table A-5
General Fund Expenditures**

Function	Year Ended		Change	
	December 31, 2014	December 31, 2013	Increase/ (Decrease)	Percent (%)
Public safety	\$ 2,921,628	\$ 2,778,012	\$ 143,616	5.17

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 did not have revenue or expenditure amendments for the year ended December 31, 2014.

CAPITAL ASSETS

The Community Corrections' investment in capital assets at December 31, 2014, was \$495, net of accumulated depreciation. Depreciation expense for the year was \$1,982.

Table A-6
Capital Assets, Net of Depreciation

	<u>2014</u>	<u>2013</u>
Office furniture and equipment	<u>\$ 495</u>	<u>\$ 2,477</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, Director, at 218-924-1294.

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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 POSITION
DECEMBER 31, 2014**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 751,561	\$ -	\$ 751,561
Due from other governments	325,938	-	325,938
Depreciable capital assets - net	-	495	495
Total Assets	\$ 1,077,499	\$ 495	\$ 1,077,994
 <u>Liabilities and Fund Balance/Net Position</u>			
Current liabilities			
Accounts payable	\$ 14,758	\$ -	\$ 14,758
Salaries payable	62,334	-	62,334
Compensated absences payable	-	286,218	286,218
Due to other governments	10,122	-	10,122
Long-term liabilities			
Compensated absences payable due after one year	-	31,799	31,799
Other postemployment benefits payable due after one year	-	1,642,460	1,642,460
Total Liabilities	\$ 87,214	\$ 1,960,477	\$ 2,047,691
Fund Balance			
Unassigned	990,285	(990,285)	
Net Position			
Investment in capital assets		495	\$ 495
Unrestricted		(970,192)	(970,192)
Total Net Position			\$ (969,697)
Total Liabilities and Fund Balance/Net Position	\$ 1,077,499	\$ 495	\$ 1,077,994
 Reconciliation of the General Fund Balance to Net Position			
Fund Balance - General Fund			\$ 990,285
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.			495
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.			(1,960,477)
Net Position - Governmental Activities			\$ (969,697)

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

EXHIBIT 2

**GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 2,550,681	\$ -	\$ 2,550,681
Charges for services	301,349	-	301,349
Miscellaneous	11,309	-	11,309
	\$ 2,863,339	\$ -	\$ 2,863,339
Expenditures/Expenses			
Public safety	2,921,628	225,050	3,146,678
	\$ (58,289)	\$ (225,050)	\$ (283,339)
Change in Fund Balance/Net Position			
Fund Balance/Net Position - January 1	1,048,574	(1,734,932)	(686,358)
Fund Balance/Net Position - December 31	\$ 990,285	\$ (1,959,982)	\$ (969,697)

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

Change in Fund Balance **\$ (58,289)**

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 (1,982)

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 (33,569)
Increase in other postemployment benefits payable (189,499)

Change in Net Position of Governmental Activities **\$ (283,339)**

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Summary of Significant Accounting Policies

The 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 Community Corrections are discussed below.

A. Financial Reporting Entity

A joint 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 Central Minnesota Community Corrections. Central Minnesota Community Corrections provides correction services to adults and juveniles under the jurisdiction of the counties that are parties to the agreement, any other Minnesota county that requests these services, and the Minnesota Department of Corrections.

The management of 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 Community Corrections' activities as a whole and information on the individual fund of the 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

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

Fund and reconciles it to a column that reports the “governmental activities” of the Community Corrections. The 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 Community Corrections’ net position is reported in two parts: net investment in capital assets and unrestricted net position. The statement of activities demonstrates the degree to which the expenses of the 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. 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 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, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Assets

Cash is on deposit with Crow Wing County.

The amounts due from other governments, totaling \$325,938, are 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 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

2. Long-Term Liabilities

Long-term liabilities are not reported in the fund. The General Fund reports only liabilities expected to be financed with available, spendable financial resources. The Statement of Net Position reports long-term liabilities of the governmental activities.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the Community Corrections has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Currently, the Community Corrections has no items that qualify for reporting in this category.

4. Equity

For the governmental fund, the Community Corrections reports an unassigned 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: investment in capital assets, the amount of net position representing capital assets, net of accumulated depreciation; and unrestricted net position, the amount of net position that does not meet the definition of restricted or investment in capital assets.

The Community Corrections has adopted a minimum fund balance policy. At the end of each fiscal year, the Community Corrections will maintain Spendable - Unassigned portions of the fund balance in a range equal to 25 to 50 percent of the annual operating expenditures. This unassigned fund balance target range as of December 31, 2014, is \$730,407 to \$1,460,814. In addition to working capital needs, this accommodates emergency concerns. In the event that the fund balance level falls below the desired range, the Management Team will report such amounts to the Executive Committee as soon as practical. If the actual amount does fall below the desired range, the Management Team will propose a plan to present to the Executive Committee to restore the appropriate level.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Equity (Continued)

In the fund financial statements, governmental funds report components of fund balance to provide information about fund balance availability for appropriation. Nonspendable fund balance represents amounts that are inherently nonspendable or assets that will never be converted to cash or converted to cash soon enough to affect the current period. Restricted fund balance represents amounts available for appropriation but intended for a specific use and are legally restricted by outside parties. Committed fund balance represents constraints on spending that the government imposes upon itself by high-level formal action prior to the close of the fiscal period. Assigned fund balance represents resources intended for spending for a purpose set by the governmental body itself or some person or body delegated to exercise such authority in accordance with policy established by the board. Unassigned fund balance is the residual classification for the Community Corrections' General Fund and includes all spendable amounts not contained in the other classifications.

5. Use of Estimates

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

F. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

F. Future Change in Accounting Standards (Continued)

GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the Community Corrections' calendar year 2015. The Community Corrections has not yet determined the financial statement impact of adopting this new standard.

G. 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 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.

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.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

G. Revenues and Expenditures

1. Revenues (Continued)

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 personal time off is shown as a liability on the government-wide financial statements.

2. Detailed Notes

A. Assets

Cash on Deposit with Crow Wing County

The 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 Community Corrections Board. Minnesota statutes require that all deposits be covered by insurance, surety bond, or collateral.

The types of securities available to the Community Corrections for investment are authorized by Minn. Stat. §§ 118A.04 and 118A.05.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

2. Detailed Notes

A. Assets

Cash on Deposit with Crow Wing County (Continued)

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, 2014, are:

	Balance January 1, 2014	Additions	Deletions	Balance December 31, 2014
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets depreciated				
Office furniture and equipment	\$ 59,499	\$ -	\$ -	\$ 59,499
Less: accumulated depreciation for				
Office furniture and equipment	<u>57,022</u>	<u>1,982</u>	<u>-</u>	<u>59,004</u>
Total Capital Assets, Net	<u>\$ 2,477</u>	<u>\$ (1,982)</u>	<u>\$ -</u>	<u>\$ 495</u>

Depreciation expense of \$1,982 for 2014 was charged to the public safety function of the governmental activities.

B. Liabilities

Compensated Absences

Under the Community Corrections' personnel policies and union contracts, employees are granted Personal Time Off (PTO) 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 Community Corrections pays unused, accumulated PTO to employees upon termination. Extended Leave Bank is available to some employees in case of illness-related absences. Extended Leave Bank is not paid to employees at termination. Unused, accumulated PTO is accrued as compensated absences payable on the government-wide financial statements. Changes in compensated absences during 2014 were:

Payable at January 1	\$ 284,448
Additions	258,365
Deductions	<u>(224,796)</u>
Payable at December 31	<u>\$ 318,017</u>

Of the total compensated absences of \$318,017, the amount due within one year is \$286,218.

3. Pension Plans

Defined Benefit Plans

Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after five years of credited service.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

3. Pension Plans

Defined Benefit Plans

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. 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 remaining year. 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 remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is either 65 or 66 (depending on date hired) for General 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 General Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

3. Pension Plans

Defined Benefit Plans (Continued)

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 were established and amended by the State Legislature. Central Minnesota Community Corrections makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014.

In 2014, Central Minnesota Community Corrections is required to contribute the following percentages of annual covered payroll:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25

Central Minnesota Community Corrections' contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund were:

<u>2014</u>	<u>2013</u>	<u>2012</u>
\$ 141,566	\$ 136,298	\$ 129,827

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers).

4. Risk Management

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 Community Corrections has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT) to cover its workers' compensation and property and casualty liabilities. There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

4. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$480,000 and \$490,000 per claim in 2014 and 2015, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Community Corrections in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the 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 (OPEB) Other Than Pensions

OPEB Disclosure

Central Minnesota Community Corrections provides health insurance benefits for certain retired employees under a single-employer fully-insured plan. The 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 Community Corrections:

<u>Retiree and Spouse</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% of premium for life

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

5. Other Postemployment Benefits (OPEB) Other Than Pensions

OPEB Disclosure (Continued)

The other postemployment benefit provided to employees is based on the employee's hire date and does not apply to all employees. For non-contract staff, the other postemployment benefits are only for eligible employees up to the age of 65 for anyone hired after April 1, 1996, and are not provided for anyone hired after January 1, 2004. For clerical contract staff, the other postemployment benefits are not provided for anyone hired after January 1, 2004. For field service contract staff, the other postemployment benefits are for eligible employees up to the age of 65 for anyone hired after April 1, 1996, and are not provided for employees hired after January 1, 2014. Only employees who were hired before April 1, 1996, are eligible for the lifetime benefits previously described. There are currently four retirees and three spouses receiving 100 percent of their benefits paid, one retiree and spouse receiving two-thirds of their benefits paid, and one retiree and spouse receiving one-third of their benefits paid.

A. Annual OPEB Cost and Net OPEB Obligation

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 Community Corrections' annual OPEB cost of 2014, the amount actually contributed to the plan, and changes in the Community Corrections' net OPEB obligation.

ARC	\$ 309,343
Interest on net OPEB obligation	65,383
Adjustment to ARC	<u>(90,750)</u>
Annual OPEB Cost	\$ 283,976
Contributions during the year	<u>(94,477)</u>
Increase in Net OPEB Obligation	\$ 189,499
Net OPEB - Beginning of the Year	<u>1,452,961</u>
Net OPEB - End of the Year	<u>\$ 1,642,460</u>

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

5. Other Postemployment Benefits (OPEB) Other Than Pensions (Continued)

B. Funded Status and Funding Progress

Central Minnesota Community Corrections' annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for years ended 2012, 2013, and 2014 were as follows:

Year Ended December 31	Annual OPEB Cost	Employer Contribution	Percentage Contributed (%)	Net OPEB Obligation
2012	\$ 324,538	\$ 69,457	21.4	\$ 1,258,366
2013	288,274	93,679	32.5	1,452,961
2014	283,976	94,477	33.3	1,642,460

As of January 1, 2013, the most recent actuarial valuation date, the Community Corrections had no assets that have been irrevocably deposited in a trust for future health benefits to fund the plan. 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, 2013	\$ -	\$ 3,177,078	\$ 3,177,078	0.0%	\$ 1,709,916	185.8%

C. 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 (OPEB) Other Than Pensions

C. 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, 2013, 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 Community Corrections. The annual health care cost trend rate is 7.5 percent initially, reduced incrementally to an ultimate rate of 5.0 percent after five years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30-year period. The remaining amortization period at December 31, 2014, was 24 years.

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REQUIRED SUPPLEMENTARY INFORMATION

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**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental				
State grants and aids				
PERA rate increase aid	\$ 5,992	\$ 5,992	\$ 5,992	\$ -
Minnesota Department of Corrections	1,630,099	1,630,099	1,633,666	3,567
Minnesota Trial Courts	241,254	241,254	276,330	35,076
Total state grants and aids	\$ 1,877,345	\$ 1,877,345	\$ 1,915,988	\$ 38,643
Local apportionment				
Aitkin County	\$ 128,689	\$ 128,689	\$ 117,548	\$ (11,141)
Crow Wing County	300,877	300,877	300,877	-
Morrison County	174,605	174,605	174,605	-
Total local apportionment	\$ 604,171	\$ 604,171	\$ 593,030	\$ (11,141)
Specialty courts - local funding	\$ 43,924	\$ 43,924	\$ 41,663	\$ (2,261)
Total Intergovernmental Revenue	\$ 2,525,440	\$ 2,525,440	\$ 2,550,681	\$ 25,241
Charges for services	328,000	328,000	301,349	(26,651)
Miscellaneous	30,000	30,000	11,309	(18,691)
Total Revenues	\$ 2,883,440	\$ 2,883,440	\$ 2,863,339	\$ (20,101)
Expenditures				
Current				
Public safety	2,967,119	2,967,119	2,921,628	45,491
Change in Fund Balance	\$ (83,679)	\$ (83,679)	\$ (58,289)	\$ 25,390
Fund Balance - January 1	1,048,574	1,048,574	1,048,574	-
Fund Balance - December 31	\$ 964,895	\$ 964,895	\$ 990,285	\$ 25,390

**CENTRAL MINNESOTA COMMUNITY CORECTIONS
BRAINERD, MINNESOTA**

EXHIBIT A-2

**SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2014**

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%	\$ 2,001,241	177.9%
January 1, 2011	-	3,201,042	3,201,042	0.0%	1,996,134	160.4%
January 1, 2013	-	3,177,078	3,177,078	0.0%	1,709,916	185.8%

The most recent actuarial valuation date was January 1, 2013.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014**

Budgetary Information

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 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.

Schedule of Funding Progress - Other Postemployment Benefits

The most recent actuarial valuation was as of January 1, 2013. The covered payroll and unfunded actuarial accrued liability as a percentage of covered payroll have been updated for the year ended December 31, 2014.

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**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014**

ITEM FOR CONSIDERATION

GASB Statement 68, *Accounting and Financial Reporting for Pensions*

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for government employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the Central Minnesota Community Corrections' government-wide statement of financial position. The Community Corrections' financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in the Community Corrections' financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year, and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Joint Powers Board
Central Minnesota Community Corrections
Brainerd, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of the governmental activities and the General Fund of Central Minnesota Community Corrections as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Community Corrections' basic financial statements and have issued our report thereon dated November 5, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Community Corrections' financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for contracting and bidding, deposits and investments, and claims and disbursements, since those transactions are handled by Crow Wing County. In addition, we did not test for compliance with provisions for public indebtedness because the Community Corrections does not have debt.

In connection with our audit, nothing came to our attention that caused us to believe that Central Minnesota Community Corrections failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Community Corrections' noncompliance with the above referenced provisions.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

November 5, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR