

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

CENTRAL MINNESOTA
COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA

YEAR ENDED DECEMBER 31, 2011

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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

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**CENTRAL MINNESOTA
COMMUNITY CORRECTIONS
BRainerd, MINNESOTA**

Year Ended December 31, 2011



**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
2011

	Position	County
Joint Powers Board		
J. Mark Wedel		Aitkin County
Anne Marcotte		Aitkin County
Laurie Westerlund		Aitkin County
Donald Niemi		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		
Paul Thiede	Chair	Crow Wing County
J. Mark Wedel	Vice Chair	Aitkin County
Laurie Westerlund	Member	Aitkin County
Duane Johnson	Member	Morrison County
Donald Meyer	Member	Morrison County
Rachel Nystrom	Member	Crow Wing County
Jerry Negen	Member	Advisory Board
Director		
Thomas Rosenthal		

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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, 2011, 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, 2011, 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.

As discussed in Note 1.E.3. to the financial statements, during the year ended December 31, 2011, Community Corrections adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, 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

October 22, 2012

/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, 2011
(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, 2011. 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, 2011, and the prior year, 2010, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2011 fiscal year include the following:

- Government-wide net assets decreased by 258 percent from the prior year.
- Overall fund level revenues totaled \$2,835,654 and were \$97,639 less than expenditures.
- The General Fund's fund balance decreased \$97,639 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 statement, 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, 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 \$(250,106) on December 31, 2011.

**Table A-2
Net Assets**

	2011	2010
Assets		
Current	\$ 1,071,005	\$ 1,214,798
Capital assets	7,575	19,813
Total Assets	\$ 1,078,580	\$ 1,234,611
Liabilities		
Long-term	\$ 1,028,248	\$ 734,146
Other	300,438	342,286
Total Liabilities	\$ 1,328,686	\$ 1,076,432
Net Assets		
Invested in capital assets	\$ 7,575	\$ 19,813
Unrestricted	(257,681)	138,366
Total Net Assets	\$ (250,106)	\$ 158,179

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

	2011	2010
Revenues		
Intergovernmental	\$ 2,497,961	\$ 2,678,797
Charges for services	296,637	309,949
Other	29,445	24,842
Total Revenues	\$ 2,824,043	\$ 3,013,588
Expenses		
Public safety	3,232,328	3,435,350
Excess of Revenues Over (Under) Expenses	\$ (408,285)	\$ (421,762)
Net Assets - January 1	158,179	579,941
Net Assets - December 31	\$ (250,106)	\$ 158,179

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 \$995,233.

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

**Table A-4
General Fund Revenues**

Function	Year Ended		Change	
	December 31, 2011	December 31, 2010	Increase/ (Decrease)	Percent (%)
Intergovernmental	\$ 2,509,572	\$ 2,667,186	\$ (157,614)	(5.9)
Charges for services	296,637	309,949	(13,312)	(4.3)
Miscellaneous	29,445	24,842	4,603	18.5
Total General Fund Revenues	\$ 2,835,654	\$ 3,001,977	\$ (166,323)	(5.5)

The following schedule presents a summary of General Fund expenditures:

**Table A-5
General Fund Expenditures**

Function	Year Ended		Change	
	December 31, 2011	December 31, 2010	Increase/ (Decrease)	Percent (%)
Public safety	\$ 2,933,293	\$ 2,968,683	\$ (35,390)	(1.2)

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 September 21, 2011. The expenditure budget was decreased by \$10,323, and the revenue budget was decreased by \$1,164.

CAPITAL ASSETS

The Community Corrections' investment in capital assets at December 31, 2011, was \$7,575, net of accumulated depreciation. Depreciation expense for the year was \$8,524.

Table A-6
Capital Assets, Net of Depreciation

	<u>2011</u>	<u>2010</u>
Office furniture and equipment	\$ 7,575	\$ 15,216
Automotive	<u>-</u>	<u>4,597</u>
Total	<u>\$ 7,575</u>	<u>\$ 19,813</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 218-825-8345.

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BASIC FINANCIAL STATEMENTS

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**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

EXHIBIT 1

**GENERAL FUND BALANCE SHEET AND
STATEMENT OF NET ASSETS OF GOVERNMENTAL ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2011**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 926,226	\$ -	\$ 926,226
Due from other governments	144,779	-	144,779
Capital assets			
Depreciable - net	-	7,575	7,575
Total Assets	\$ 1,071,005	\$ 7,575	\$ 1,078,580
 <u>Liabilities and Fund Balance/Net Assets</u>			
Current liabilities			
Accounts payable	\$ 13,532	\$ -	\$ 13,532
Salaries payable	54,652	-	54,652
Compensated absences payable	-	224,666	224,666
Due to other governments	7,588	-	7,588
Long-term liabilities			
Compensated absences payable due after one year	-	24,963	24,963
Other postemployment benefits payable due after one year	-	1,003,285	1,003,285
Total Liabilities	\$ 75,772	\$ 1,252,914	\$ 1,328,686
Fund Balance			
Unassigned	995,233	(995,233)	
Total Liabilities and Fund Balance	\$ 1,071,005		
Net Assets			
Invested in capital assets		\$ 7,575	\$ 7,575
Unrestricted		(257,681)	(257,681)
Total Net Assets		\$ (250,106)	\$ (250,106)
 Reconciliation of the General Fund Balance to Net Assets			
Fund Balance - General Fund			\$ 995,233
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.			7,575
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.			(1,252,914)
Net Assets - Governmental Activities			\$ (250,106)

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

EXHIBIT 2

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND STATEMENT OF ACTIVITIES OF GOVERNMENTAL ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 2,509,572	\$ (11,611)	\$ 2,497,961
Charges for services	296,637	-	296,637
Miscellaneous	29,445	-	29,445
	\$ 2,835,654	\$ (11,611)	\$ 2,824,043
Expenditures/Expenses			
Public safety	2,933,293	299,035	3,232,328
	\$ (97,639)	\$ (310,646)	\$ (408,285)
Change in Fund Balance/Net Assets			
Fund Balance/Net Assets - January 1	1,092,872	(934,693)	158,179
Fund Balance/Net Assets - December 31	\$ 995,233	\$ (1,245,339)	\$ (250,106)

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

Change in Fund Balance	\$ (97,639)
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In the fund, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statement and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred revenue - December 31	\$ -	
Deferred revenue - January 1	(11,611)	(11,611)

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	(8,523)
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**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

***EXHIBIT 2
(Continued)***

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND STATEMENT OF ACTIVITIES OF GOVERNMENTAL ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General Fund	Adjustments	Governmental Activities
<p>In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. In addition, the economic gain on trade-in of capital assets is reported in the statement of activities, however, in the governmental funds, the transactions are not reported since they do not provide current financial resources.</p>			(3,715)
<p>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.</p>			
<p>Decrease in compensated absences payable</p>			8,118
<p>Increase in other postemployment benefits payable</p>			(294,915)
Change in Net Assets of Governmental Activities			\$ (408,285)

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**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011**

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 the Central Minnesota Community Corrections. The Central Minnesota Community Corrections provides detention and 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 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 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 Fund and reconciles it to a column that reports the "governmental activities" of the

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

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 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 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 \$144,779, are receivables from the counties that are parties to the joint powers agreement, other Minnesota counties for which detention and correction services to juveniles were provided on a fee-for-service basis, 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 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

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.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. 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: net assets invested in capital assets and unrestricted net assets.

At December 31, 2011, the Organization adopted Governmental Accounting Standards Board (GASB) Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*.

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 will be 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 is 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 government 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.

4. 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.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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 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.

Exchange Transactions

Charges for services and miscellaneous revenues are recognized when earned.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies

F. Revenues and Expenditures (Continued)

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. Sick leave and compensatory time are not reported in the financial statements.

2. Detailed Notes

A. Assets

1. 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.

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.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

2. Detailed Notes

A. Assets (Continued)

2. Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2011, are:

	Balance January 1, 2011	Additions	Deletions	Balance December 31, 2011
Capital assets depreciated				
Office furniture and equipment	\$ 58,771	\$ -	\$ 5,217	\$ 53,554
Automotive	18,384	-	18,384	-
Total capital assets depreciated	\$ 77,155	\$ -	\$ 23,601	\$ 53,554
Less: accumulated depreciation for				
Office furniture and equipment	\$ 43,555	\$ 6,685	\$ 4,261	\$ 45,979
Automotive	13,787	1,838	15,625	-
Total accumulated depreciation	\$ 57,342	\$ 8,523	\$ 19,886	\$ 45,979
Total Capital Assets, Net	\$ 19,813	\$ (8,523)	\$ 3,715	\$ 7,575

B. Liabilities

1. Operating Leases

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 \$3,606 for the year ended December 31, 2011. The future minimum lease payments for this lease are as follows:

Year Ending December 31	Amount
2012	\$ 3,606

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

2. Detailed Notes

B. Liabilities (Continued)

2. 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.

The Community Corrections pays unused, accumulated PTO to employees upon termination. Sick leave is available to some employees in case of illness-related absences. Sick leave 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 2011 were:

Payable at January 1	\$ 257,747
Net decrease during 2011	<u>(8,118)</u>
Payable at December 31	<u>\$ 249,629</u>

Of the total compensated absences of \$249,629, the amount due within one year is \$224,666.

3. Pension Plans

A. Defined Benefit

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 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.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

3. Pension Plans

A. Defined Benefit

Plan Description (Continued)

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.

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 (five years for those first eligible for membership after June 30, 2010). Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive 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. Using 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 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for members hired prior to July 1, 1989, and is the age for unreduced Social Security benefits capped at age 66 for Coordinated Plan members hired on or after July 1, 1989. 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.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

3. Pension Plans

A. Defined Benefit

Plan Description (Continued)

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.

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. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.25 percent, respectively, of their annual covered salary.

The Central Minnesota Community Corrections is required to contribute the following percentages of annual covered payroll in 2011:

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

The Central Minnesota Community Corrections' contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund were:

<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 141,390	\$ 136,361	\$ 134,688

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

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

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 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. The 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 \$450,000 per claim in 2011. 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

A. OPEB Disclosure

The 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.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

5. Other Postemployment Benefits (OPEB) Other Than Pensions

A. OPEB Disclosure (Continued)

Pursuant to the provisions on the plan, the schedule below shows the cost to the Community Corrections:

Retiree and Spouse	
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

As of the most recent information, there were three retirees and two spouses receiving health benefits from the Community Corrections' health plan.

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 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 2011, the amount actually contributed to the plan, and changes in the Community Corrections' net OPEB obligation.

ARC	\$ 340,713
Interest on net OPEB obligation	31,877
Adjustment to ARC	(42,892)
Annual OPEB Cost	\$ 329,698
Contributions during the year	(34,783)
Decrease in Net OPEB Obligation	\$ 294,915
Net OPEB - Beginning of the Year	708,370
Net OPEB - End of the Year	\$ 1,003,285

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

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

B. Funding Status

The Central Minnesota Community Corrections' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 were as follows:

<u>Year Ended December 31</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 388,962	\$ 32,358	8.3%	\$ 356,604
2010	383,593	31,827	8.3	708,370
2011	326,698	34,783	10.5	1,003,285

The 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.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a)/c)</u>
January 1, 2011	\$ -	\$ 3,201,042	\$ 3,201,042	0.0%	\$ 1,996,134	160.4%

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, 2011, actuarial valuation, then 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 8.0 percent initially, reduced incrementally to an ultimate rate of 5.0 percent after six years. The unfunded actuarial 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**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<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	\$ 8,313	\$ 7,503	\$ 7,503	\$ -
State grants and aids				
PERA rate increase aid	\$ -	\$ -	\$ 5,992	\$ 5,992
Minnesota Department of Corrections	1,699,164	1,666,753	1,633,270	(33,483)
Minnesota Department of Trial Courts	131,081	112,644	76,801	(35,843)
Total state grants and aids	\$ 1,830,245	\$ 1,779,397	\$ 1,716,063	\$ (63,334)
Local apportionment				
Aitkin County	\$ 238,519	\$ 282,192	\$ 278,390	\$ (3,802)
Crow Wing County	326,981	331,802	331,802	-
Morrison County	175,814	175,814	175,814	-
Total local apportionment	\$ 741,314	\$ 789,808	\$ 786,006	\$ (3,802)
Charges for services	\$ 308,000	\$ 310,000	\$ 296,637	\$ (13,363)
Miscellaneous	33,000	33,000	29,445	(3,555)
Total Revenues	\$ 2,920,872	\$ 2,919,708	\$ 2,835,654	\$ (84,054)
Expenditures				
Current				
Public safety	3,000,349	2,990,026	2,933,293	56,733
Change in Fund Balance	\$ (79,477)	\$ (70,318)	\$ (97,639)	\$ (27,321)
Fund Balance - January 1	1,092,872	1,092,872	1,092,872	-
Fund Balance - December 31	\$ 1,013,395	\$ 1,022,554	\$ 995,233	\$ (27,321)

**CENTRAL MINNESOTA COMMUNITY CORECTIONS
BRAINERD, MINNESOTA**

EXHIBIT A-2

**SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2011	\$ -	\$ 3,201,042	\$ 3,201,042	0%	\$ 1,996,134	160.4 %

The most recent actuarial valuation date was January 1, 2011.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011**

1. 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.

2. Schedule of Funding Progress - Other Postemployment Benefits

The most recent actuarial valuation was as of January 1, 2011. The covered payroll and unfunded actuarial accrued liability as a percentage of covered payroll have been updated for the year ended December 31, 2011.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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, 2011, 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 Political Subdivisions*, 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 Political Subdivisions* 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, and claims and disbursements because they were tested in conjunction with the audit of the financial statements of Crow Wing County, and public indebtedness because the Central Minnesota Community Corrections does not have debt.

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.

This report 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

October 22, 2012

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