

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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**CENTRAL MINNESOTA COMMUNITY CORRECTIONS**  
**BRAINERD, MINNESOTA**

YEAR ENDED DECEMBER 31, 2004

## **Description of the Office of the State Auditor**

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

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

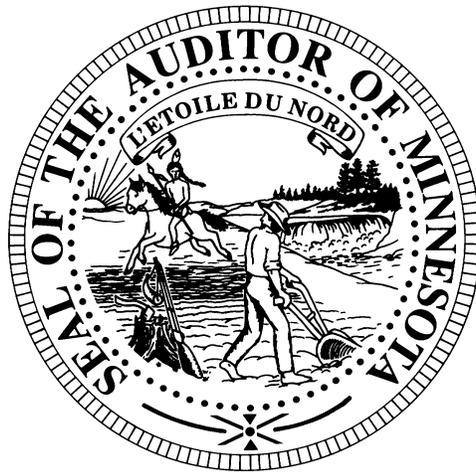
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**CENTRAL MINNESOTA  
COMMUNITY CORRECTIONS  
BRainerd, MINNESOTA**

**Year Ended December 31, 2004**



**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  
2004

	<u>Position</u>	<u>County</u>
<b>Joint Powers Board</b>		
Darrell Bruggman		Aitkin County
Paul Bailey		Aitkin County
Dale Lueck		Aitkin County
Reggie Lee		Aitkin County
Jon Olson		Aitkin County
John Ferrari		Crow Wing County
Gary Walters		Crow Wing County
Dewayne Tautges		Crow Wing County
Ed Larsen		Crow Wing County
Terry Sluss		Crow Wing County
William Block		Morrison County
Jeff Schilling		Morrison County
Donald Meyer		Morrison County
Gene Young		Morrison County
Thomas Wenzel		Morrison County
<b>Executive Committee</b>		
William Block	Chair	Morrison County
Darrell Bruggman	Vice Chair	Aitkin County
James O'Toole	Member	Advisory Board
John Ferrari	Member	Crow Wing County
Jon Olson	Member	Aitkin County
Dewayne Tautges	Member	Crow Wing County
Donald Meyer	Member	Morrison County
<b>Director</b>		
Bob Tepfer		

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PATRICIA ANDERSON  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Joint Powers Board  
Central Minnesota Community Corrections

We have audited the accompanying financial statements of the governmental activities and the major fund of the Central Minnesota Community Corrections as of and for the year ended December 31, 2004, 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 major fund of the Central Minnesota Community Corrections as of December 31, 2004, 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 the notes to the financial statements, the Central Minnesota Community Corrections adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in the format and content of the basic financial statements.

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

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: October 20, 2005

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**CENTRAL MINNESOTA COMMUNITY CORRECTIONS  
BRAINERD, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2004  
(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, 2004. The Management's Discussion and Analysis (MD&A) is a new 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, 2004, and the prior year, 2003, is required to be presented in the MD&A. However, since this is the first year of implementation of the new reporting model contained in GASB Statement 34, and that Statement permits the omission of prior year data in the year of implementation, the Community Corrections has elected not to prepare comparative data due to the cost of adjusting the prior year's financial statements to the new reporting model.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2004 fiscal year include the following:

- Government-wide net assets decreased by 36 percent from the prior year.
- Overall fund-level revenues totaled \$3,137,850 and were \$225,448 less than expenditures.
- The General Fund's fund balance decreased \$225,448 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); the basic financial statements; and 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 readily be 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 \$405,687 on December 31, 2004.

**Table A-2**  
**Net Assets**  
**December 31, 2004**

Assets	
Current	\$ 580,688
Capital assets	<u>80,723</u>
Total Assets	<u>\$ 661,411</u>
Liabilities	
Long-term	\$ 12,400
Other	<u>243,324</u>
Total Liabilities	<u>\$ 255,724</u>
Net Assets	\$ 80,723
Invested in capital assets	
Unrestricted	<u>324,964</u>
Total Net Assets	<u>\$ 405,687</u>

The Community Corrections did not restate its 2003 financial statements in this first year of implementation of GASB Statement 34. Comparative information will be provided in future years.

**Table A-3**  
**Change in Net Assets**  
**Governmental Activities for the Year Ended December 31, 2004**

Revenues	
Intergovernmental	\$ 2,110,909
Charges for services	976,943
Miscellaneous	<u>55,591</u>
Total Revenues	\$ 3,143,443
Expenditures	
Public safety	<u>3,372,484</u>
Excess of Revenues Over (Under) Expenditures	\$ (229,041)
Net Assets - January 1, 2004	<u>634,728</u>
Net Assets - December 31, 2004	<u>\$ 405,687</u>

The Community Corrections did not restate its 2003 financial statements in this first year of implementation of GASB Statement 34. Comparative information will be provided in future years.

**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 \$415,923.

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

**Table A-4  
General Fund Revenues**

Function	Year Ended		Change	
	December 31, 2004	December 31, 2003	Increase/ (Decrease)	Percent (%)
Intergovernmental	\$ 2,116,236	\$ 2,331,447	\$ (215,211)	(9.2)
Charges for services	966,023	1,220,067	(254,044)	(20.8)
Miscellaneous	55,591	22,581	33,010	146.2
Total General Fund Revenues	<u>\$ 3,137,850</u>	<u>\$ 3,574,095</u>	<u>\$ (436,245)</u>	(12.2)

The following schedule presents a summary of General Fund expenditures:

**Table A-5  
General Fund Expenditures**

Function	Year Ended		Change	
	December 31, 2004	December 31, 2003	Increase/ (Decrease)	Percent (%)
Public Safety	<u>\$ 3,363,298</u>	<u>\$ 3,636,474</u>	<u>\$ (273,176)</u>	(7.5)

**FACTORS BEARING ON THE COMMUNITY CORRECTIONS' FUTURE**

The Community Corrections is dependent on the State of Minnesota for a significant portion of its revenue. Recent experience demonstrates that the Legislature may decrease revenues again.

**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 Mike Kafka, Director, at 218-825-8345.

## **BASIC FINANCIAL STATEMENTS**

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**CENTRAL MINNESOTA COMMUNITY CORRECTIONS  
BRAINERD, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS AND  
GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2004**

	<b>General Fund</b>	<b>Reconciliation</b>	<b>Governmental Activities</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 268,211	\$ -	\$ 268,211
Petty cash and change funds	500	-	500
Due from other governments	311,977	-	311,977
Capital assets			
Depreciable - net	-	80,723	80,723
<b>Total Assets</b>	<b>\$ 580,688</b>	<b>\$ 80,723</b>	<b>\$ 661,411</b>
<b><u>Liabilities</u></b>			
Current liabilities			
Accounts payable	\$ 22,633	\$ -	\$ 22,633
Salaries payable	94,929	-	94,929
Compensated absences payable	-	101,455	101,455
Due to other governments	24,307	-	24,307
Deferred revenue	22,896	(22,896)	-
Long-term liabilities			
Due after one year	-	12,400	12,400
<b>Total Liabilities</b>	<b>\$ 164,765</b>	<b>\$ 90,959</b>	<b>\$ 255,724</b>
<b><u>Fund Balance/Net Assets</u></b>			
Fund Balance			
Unreserved, undesignated	415,923	(415,923)	
<b>Total Liabilities and Fund Balance</b>	<b>\$ 580,688</b>		
Net Assets			
Invested in capital assets		\$ 80,723	\$ 80,723
Unrestricted		324,964	324,964
<b>Total Net Assets</b>		<b>\$ 405,687</b>	<b>\$ 405,687</b>
<b>Reconciliation of the Governmental Fund Balance to Net Assets</b>			
<b>Fund Balance - Governmental Fund</b>			<b>\$ 415,923</b>
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.			80,723
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental fund.			22,896
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental fund.			(113,855)
<b>Net Assets - Governmental Activities</b>			<b>\$ 405,687</b>

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS  
BRAINERD, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES AND  
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>General Fund</b>	<b>Reconciliation</b>	<b>Governmental Activities</b>
<b>Revenues</b>			
Intergovernmental	\$ 2,116,236	\$ (5,327)	\$ 2,110,909
Charges for services	966,023	10,920	976,943
Miscellaneous	55,591	-	55,591
<b>Total Revenues</b>	<b>\$ 3,137,850</b>	<b>\$ 5,593</b>	<b>\$ 3,143,443</b>
<b>Expenditures/Expenses</b>			
Public safety	3,363,298	9,186	3,372,484
<b>Excess of Revenues Over (Under) Expenditures/Expenses</b>	<b>\$ (225,448)</b>	<b>\$ (3,593)</b>	<b>\$ (229,041)</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>641,371</b>	<b>(6,643)</b>	<b>634,728</b>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 415,923</b>	<b>\$ (10,236)</b>	<b>\$ 405,687</b>

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

**Net Change in Fund Balance** **\$ (225,448)**

In the fund, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues is the increase (decrease) in deferred revenue. 5,593

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.

Expenditures for capital outlay	\$ 7,000	
Current year depreciation	(24,516)	(17,516)

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 the governmental fund.

Decrease in compensated absences payable		8,330
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**Change in Net Assets of Governmental Activities** **\$ (229,041)**

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS  
BRAINERD, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

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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). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Community Corrections are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

The financial statements include:

- A Management's Discussion and Analysis section providing an analysis of the Community Corrections' overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Community Corrections' activities.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Community Corrections has elected to implement all provisions of the statement in the current year.

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

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS  
BRAINERD, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

The management of the Community Corrections is vested in a Joint Powers Board, which is 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 funds 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 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, net of related debt, 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.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS  
BRAINERD, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Central Minnesota Community Corrections considers all revenues to be available if they are collected within 60 days after the end of the current period. Charges for services and interest are considered to be 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.

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 \$311,977, are receivables from the counties which are parties to the joint powers agreement and other Minnesota counties for which detention and correction services to juveniles were provided on a fee-for-service basis.

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. Depreciation has been recorded on the government-wide financial statements relating to capital assets.

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 that are not considered to be available to liquidate liabilities of the current period.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS  
BRAINERD, MINNESOTA**

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

F. Revenues and Expenditures

1. Revenues

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

Intergovernmental

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and state grants mandating the 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**

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1. Summary of Significant Accounting Policies

F. 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 vacation is shown as a liability on the government-wide financial statements. Unvested sick leave and compensatory time are not reported in the financial statements.

2. Detailed Notes

A. Assets

Cash on Deposit with Crow Wing County

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Community Corrections 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.

Minn. Stat. §§ 118A.04 and 118A.05 authorize the types of securities available to the Community Corrections for investment.

Additional disclosures, as required by 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)

Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2004, are:

	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
Capital assets depreciated				
Office furniture and equipment	\$ 192,462	\$ -	\$ -	\$ 192,462
Automotive	58,255	7,000	-	65,255
Leasehold improvements	46,358	-	-	46,358
	<u>\$ 297,075</u>	<u>\$ 7,000</u>	<u>\$ -</u>	<u>\$ 304,075</u>
Total capital assets depreciated				
Less: accumulated depreciation for				
Office furniture and equipment	\$ 124,154	\$ 19,739	\$ -	\$ 143,893
Automotive	58,255	467	-	58,722
Leasehold improvements	16,427	4,310	-	20,737
	<u>\$ 198,836</u>	<u>\$ 24,516</u>	<u>\$ -</u>	<u>\$ 223,352</u>
Total accumulated depreciation				
Total Capital Assets, Net	<u>\$ 98,239</u>	<u>\$ (17,516)</u>	<u>\$ -</u>	<u>\$ 80,723</u>

B. Liabilities

Deferred Revenue

Deferred revenue of \$22,896 consists of grants receivable which are not collected soon enough after year-end to pay liabilities of the current year.

Operating Leases

The Central Minnesota Community Corrections has an operating lease with GJW Enterprises, LLC, for the rental of facilities for administrative offices. The lease is effective from September 1, 2003, through August 31, 2006, and requires monthly rent as follows:

Year 1 monthly rent	\$1,975	Starting September 1, 2003
Year 2 monthly rent	\$2,100	Starting September 1, 2004
Year 3 monthly rent	\$2,225	Starting September 1, 2005

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS  
BRAINERD, MINNESOTA**

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2. Detailed Notes

B. Liabilities

Operating Leases (Continued)

The Central Minnesota Community Corrections entered into an operating lease with Crow Wing County for the rental of the Juvenile Detention Center. The lease is for 15 years, and the Community Corrections is buying down the gross rental amount by \$349,419. That leaves a 15-year rental amount of \$864,285. As of December 31, 2004, the remaining payments to be made on the lease total \$633,869, which is to be paid in monthly increments of \$4,802.

Year Ending December 31	Amount Due Per Year
2005	\$ 57,624
2006	57,624
2007	57,624
2008	57,624
2009	57,624
2010 - 2014	288,120
2015	57,629
Total	\$ 633,869

Compensated Absences

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

The Community Corrections pays unused accumulated vacation to employees upon termination. Sick leave is available to employees in case of illness-related absences. Sick leave is not paid to employees at termination. Unused, accumulated vacation is accrued as compensated absences payable on the government-wide financial statements. Changes in compensated absences during 2004 were:

Payable at January 1	\$ 122,185
Net decrease during 2004	(8,330)
Payable at December 31	\$ 113,855

Of the total compensated absences of \$113,855, the amount due within one year is \$101,455.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS  
BRAINERD, MINNESOTA**

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3. Pension Plans

A. Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. Members who are employed in a county correctional institution and have direct contact with inmates are covered by the Public Employees Correctional Fund.

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

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

For all Public Employees Retirement Fund members whose annuity is calculated using Method 1, and for all Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS  
BRAINERD, MINNESOTA**

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3. Pension Plans

A. Plan Description (Continued)

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.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund and the Public Employees Correctional Fund. That report may be obtained on the web at [mnpera.org](http://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.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Community Corrections makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The Community Corrections is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Correctional Fund	8.75

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS  
BRAINERD, MINNESOTA**

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3. Pension Plans

B. Funding Policy (Continued)

The Community Corrections' contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Correctional Fund
2004	\$ 86,042	\$ 53,724
2003	89,099	61,905
2002	89,144	73,528

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

4. Risk Management

The Central Minnesota Community Corrections is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The Community Corrections has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Insurance 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 the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the Community Corrections in a method and amount to be determined by the MCIT.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS  
BRAINERD, MINNESOTA**

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4. Risk Management (Continued)

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

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**CENTRAL MINNESOTA COMMUNITY CORRECTIONS  
BRAINERD, MINNESOTA**

*Schedule 1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
<b>Intergovernmental</b>				
<b>Federal grants</b>				
Juvenile Accountability Incentive Block Grant	\$ 34,875	\$ 34,875	\$ 34,875	\$ -
<b>State grants and aids</b>				
PERA rate increase aid	\$ -	\$ -	\$ 9,750	\$ 9,750
Minnesota Department of Corrections	1,708,366	1,708,366	1,785,594	77,228
<b>Total state grants and aids</b>	<b>\$ 1,708,366</b>	<b>\$ 1,708,366</b>	<b>\$ 1,795,344</b>	<b>\$ 86,978</b>
<b>Local apportionment</b>				
Aitkin County	\$ 68,945	\$ 68,945	\$ 68,945	\$ -
Crow Wing County	131,558	131,558	131,558	-
Morrison County	85,514	85,514	85,514	-
<b>Total local apportionment</b>	<b>\$ 286,017</b>	<b>\$ 286,017</b>	<b>\$ 286,017</b>	<b>\$ -</b>
<b>Total intergovernmental</b>	<b>\$ 2,029,258</b>	<b>\$ 2,029,258</b>	<b>\$ 2,116,236</b>	<b>\$ 86,978</b>
Charges for services	1,736,160	1,736,160	966,023	(770,137)
Miscellaneous	20,820	20,820	55,591	34,771
<b>Total Revenues</b>	<b>\$ 3,786,238</b>	<b>\$ 3,786,238</b>	<b>\$ 3,137,850</b>	<b>\$ (648,388)</b>
<b>Expenditures</b>				
<b>Current</b>				
Public safety	3,786,238	3,786,238	3,363,298	422,940
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (225,448)</b>	<b>\$ (225,448)</b>
<b>Fund Balance - January 1</b>	<b>641,371</b>	<b>641,371</b>	<b>641,371</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 641,371</b>	<b>\$ 641,371</b>	<b>\$ 415,923</b>	<b>\$ (225,448)</b>

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**CENTRAL MINNESOTA COMMUNITY CORRECTIONS  
BRAINERD, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

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Budgetary Information

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

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

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

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OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON  
STATE AUDITOR

**AUDITOR'S REPORT ON 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, 2004, and have issued our report thereon dated October 20, 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness because there is no long-term debt outstanding.

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 and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: October 20, 2005