

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

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, 2005



**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
2005**

	<u>Position</u>	<u>County</u>
Joint Powers Board		
Brian Napstad		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
Executive Committee		
William Block	Chair	Morrison County
Brian Napstad	Vice Chair	Aitkin County
James O'Toole	Member	Advisory Board
Terry Sluss	Member	Crow Wing County
Jon Olson	Member	Aitkin County
Dewayne Tautges	Member	Crow Wing County
Donald Meyer	Member	Morrison County
Director		
Michael Kafka		

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PATRICIA ANDERSON
STATE AUDITOR

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 information of Central Minnesota Community Corrections as of and for the year ended December 31, 2005, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

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 Central Minnesota Community Corrections as of December 31, 2005, 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.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise Central Minnesota Community Corrections' basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information

has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2006, on our consideration of Central Minnesota Community Corrections' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 27, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**YELLOW MEDICINE COUNTY
GRANITE FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005
(Unaudited)**

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the County's financial activities for the fiscal year ended December 31, 2005. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$57,045,591, of which \$45,570,362 is invested in capital assets, net of related debt, and \$4,782,296 is restricted to specific purposes. The \$6,692,933 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net assets increased by \$2,634,002 for the year ended December 31, 2005. A large part of the increase is attributable to the County's investing in capital assets net of accumulated depreciation.
- The net cost of governmental activities for the current fiscal year was \$4,830,911. General revenues and other items totaling \$7,464,913 funded the net cost.
- The fund balances of the governmental funds increased by \$3,967,764. Most of the increase was due to proceeds from the sale of refunding bonds. The balance was due to less than anticipated costs in several departments, higher than anticipated jail fees received from other counties for boarding prisoners, and insurance dividends for expenditures of prior years.
- For the year ended December 31, 2005, the unreserved fund balance of the General Fund was \$3,494,113; or 78.2 percent, of the total General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. This report also contains other required supplementary information.

Government-Wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the County's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. It is important to consider other nonfinancial factors, such as changes in the County's property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

The statement of activities presents the County's governmental activities. Most of the basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities. The County has no business-type activities or component units for which the County is legally accountable.

The government-wide statements can be found on Exhibits 1 and 2 of this report.

Fund Level Statements

Fund level statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law or by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using modified accrual accounting. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Ditch Special Revenue Fund, and Jail Bond Debt Service Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibits 3 through 6 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside of the County. Fiduciary funds are not reflected in the government-wide statements because the resources of these funds are not available to support the County's own programs or activities. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on Exhibits 7 and 8.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$57,045,591 at the close of 2005. The largest portion of the net assets (79.9 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges), less any related outstanding debt used to acquire those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

	Net Assets	
	(in thousands)	
	Governmental Activities	
	2005	2004
Assets		
Current and other assets	\$ 15,597	\$ 13,302
Capital assets	48,623	45,668
Total Assets	\$ 64,220	\$ 58,970
Liabilities		
Long-term liabilities	\$ 6,344	\$ 3,850
Other liabilities	830	708
Total Liabilities	\$ 7,174	\$ 4,558
Net Assets		
Invested in capital assets, net of related debt	\$ 45,570	\$ 42,508
Restricted	4,783	3,233
Unrestricted	6,693	8,671
Total Net Assets	\$ 57,046	\$ 54,412

Unrestricted net assets--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--is 11.7 percent of the net assets.

Governmental Activities

The County's governmental activities increased net assets by 4.8 percent (\$57,045,591 for 2005 compared to \$54,411,589 for 2004). Key elements in this increase in net assets are as follows:

Changes in Net Assets		
(in thousands)		
	<u>2005</u>	<u>2004</u>
Revenues		
Program revenues		
Charges for services	\$ 1,195	\$ 960
Operating grants and contributions	3,934	3,897
Capital grants and contributions	1,800	1,842
General revenue		
Property taxes	5,296	5,269
Other	<u>2,169</u>	<u>1,842</u>
Total Revenues	<u>\$ 14,394</u>	<u>\$ 13,810</u>
Expenses		
General government	\$ 1,866	\$ 1,934
Public safety	1,967	1,877
Highways and streets	3,430	3,422
Sanitation	110	83
Human services	3,401	3,209
Health	91	92
Culture and recreation	202	161
Conservation of natural resources	439	530
Economic development	8	4
Interest	<u>246</u>	<u>165</u>
Total Expenses	<u>\$ 11,760</u>	<u>\$ 11,477</u>
Excess of Revenues Over (Under) Expenses	\$ 2,634	\$ 2,333
Extraordinary Items	<u>-</u>	<u>-</u>
Increase in Net Assets	\$ 2,634	\$ 2,333
Net Assets - January 1	<u>54,412</u>	<u>52,079</u>
Net Assets - December 31	<u><u>\$ 57,046</u></u>	<u><u>\$ 54,412</u></u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and the balances left at year-end available for spending. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$13,828,049, an increase of \$3,967,764 in comparison with the prior year. Of the combined ending fund balances, \$8,872,876 represents unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law, grant agreements, or bond covenants.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unreserved fund balance of \$3,494,113. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund unreserved fund balance represents 78.2 percent of total General Fund expenditures. During 2005, the ending fund balance increased by \$667,823. The primary reason for this increase was due to less than anticipated costs in several departments, higher than anticipated jail fees received from other counties for boarding prisoners, an increase in investment earnings, and insurance dividends for expenses of prior years.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$2,782,130 at fiscal year-end, representing 42.6 percent of its annual expenditures. The ending fund balance increased \$690,023 during 2005, primarily due to highway allotments for two large projects that were not completed.

The Human Services Special Revenue Fund had an unreserved fund balance of \$1,980,939 at fiscal year-end, representing 58.0 percent of its annual expenditures. The ending fund balance increased \$55,255 during 2005, primarily due to lower than anticipated social service costs, and an increase in interest earnings.

The Ditch Special Revenue Fund had an unreserved fund balance of \$615,694 at fiscal year-end. The ending fund balance decreased \$58,633 during 2005, primarily due to the 114 ditches needing more maintenance than was assessed to benefiting land owners.

The Jail Bond Debt Service Fund had a reserved fund balance of \$2,879,135 at fiscal year-end. The fund had a reserved for debt service fund balance of \$341,522 representing 98.1 percent of its annual expenditures. The remaining reserved fund balance of \$2,537,613 is reserved in escrow for the refunding of the 1999 General Obligation Jail and Courthouse Bonds. The ending

fund balance increased \$2,613,296 during 2005, primarily due to the proceeds from the sale of refunding bonds and the bond covenant's requirement to levy 105 percent of the amount needed to make the subsequent years' principal and interest payments.

Governmental Activities

The County's total revenues were \$14,394,007. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2005.

**Table 1
Total County Revenues**

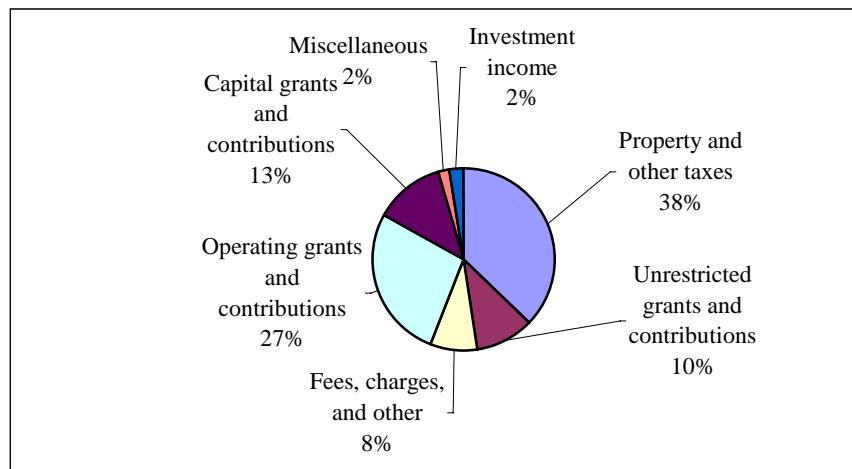
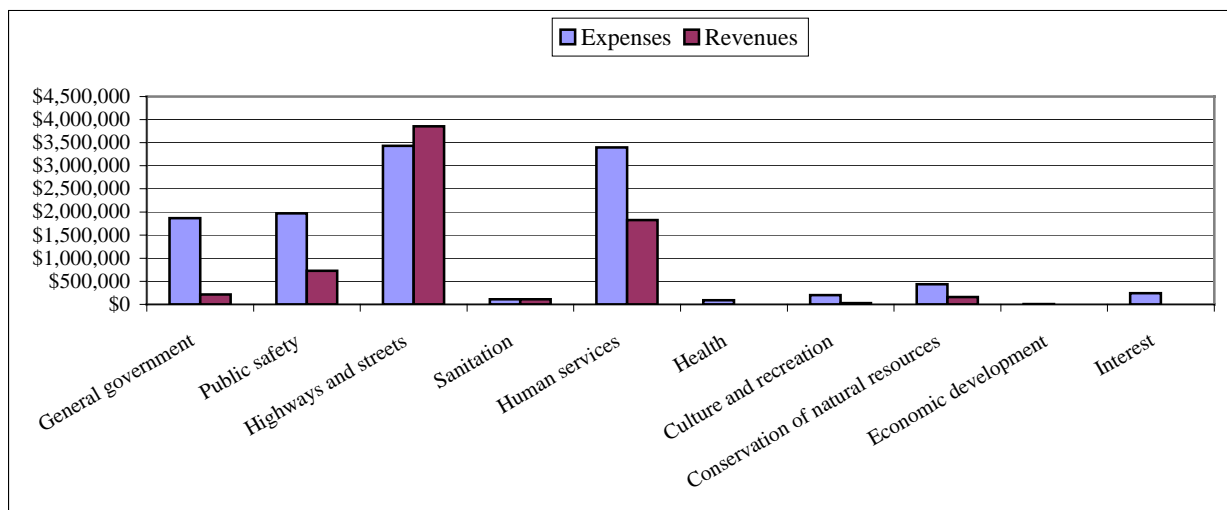


Table 2 presents the cost and revenue of each program as well as the County's general revenues. Total revenues for the County were \$14,394,007, while total expenses were \$11,760,005. This reflects a \$2,634,002 increase in net assets for the year ended December 31, 2005.

**Table 2
Expenses and Program Revenues 2005**



The cost of all governmental activities this year was \$11,760,005. However, as shown on the Statement of Activities on Exhibit 2, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$5,296,418 because some of the costs were paid by those who directly benefited from the programs (\$1,194,828) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,734,266). The County paid for the remaining “public benefit” portion of governmental activities with \$7,464,913 in general revenues, primarily taxes (some of which could only be used for certain programs) and other revenues, such as grants and contributions not restricted to specific programs and interest.

Table 3 presents the cost of each of the County’s four largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activity). The net cost shows the financial burden placed on the County’s taxpayers by each of these functions.

Table 3
Governmental Activities
(in thousands)

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Highways and streets	\$ 3,430	\$ 3,423	\$ (427)	\$ (213)
Human services	3,401	3,209	1,578	1,430
General government	1,866	1,934	1,648	1,663
Public safety	1,967	1,877	1,239	1,167
All others	1,096	1,035	793	732
Totals	\$ 11,760	\$ 11,478	\$ 4,831	\$ 4,779

General Fund Budgetary Highlights

Over the course of the year, the County Board revised the General Fund budget. These budget amendments fall into three categories: new information changing original budget estimates, greater than anticipated revenues and/or costs, and new grant awards.

With these adjustments, the actual charges to appropriations (expenditures) were \$167,104 below the final budget amounts. The most significant positive variance (\$44,209) occurred in the Data Processing Department, where we leased time on an AS400 instead of owning an AS400 and budgeted to hire a part time technical support person and actually used an outside service instead, resulting in a 1.0 percent reduction in expected expenditures. Reasons for other significant variances of actual expenditures to final budget include a lower than anticipated cost of the 2004 audit; the E-911 System Department spent less than anticipated of its restricted grant proceeds which will result in revenues being deferred; the Central Services Department spent less on professional & technical services and rental & service agreements than anticipated; the Attorney received a larger reimbursement of expenditures than anticipated from the Human Services Department; the Jail had lower than anticipated costs; and several other departments spent less than anticipated.

On the other hand, resources available for appropriation were \$516,218 above the final budgeted amount. The most significant positive variance (\$213,372) occurred in charges for services. The majority of this increase came from the collection of fees from other counties for boarding their prisoners in our jail and the law change increasing recording fees effective on July 1, 2005. Other significant increases came from an insurance dividend, higher than anticipated collection of grant proceeds, an increase to investment earnings and an increase to delinquent tax collections.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2005, totaled \$48,623,184 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$2,954,983 or 6.5 percent from the previous year. The major capital asset events were:

- \$3,927,246 Construction of highways and streets
- \$ 280,362 Purchase of highway equipment
- \$ 159,158 Construction of a highway shop addition

Capital Assets at Year-End Net of Depreciation (in thousands)

	2005	2004
Land	\$ 672	\$ 665
Infrastructure	41,789	38,938
Buildings	4,561	4,557
Improvements other than buildings	347	358
Machinery and equipment	1,155	1,014
Construction in progress	99	136
Total	\$ 48,623	\$ 45,668

Additional information about the County's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had total net outstanding debt of \$5,700,595, which was backed by the full faith and credit of the government.

**Outstanding Debt
(in thousands)**

	2005	2004
General Obligation Bonds	\$ 5,638	\$ 3,160
Capital Leases	63	92
Total	\$ 5,701	\$ 3,252

The County's debt related to general obligation bonds increased by \$2,477,773 (78.4 percent) during the fiscal year.

Minnesota statutes limit the amount of debt a county may levy to two percent of its total market value. At the end of 2005, the County's outstanding debt was 0.6 percent of its total estimated market value.

Additional information on the County's long-term debt can be found in the notes to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2006 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Yellow Medicine County at the end of 2005 was 4.5 percent. This compares unfavorably with the state unemployment rate of 4.0 percent but shows a decrease from the County's 5.0 percent rate of one year ago. This could impact the level of services requested by County residents.
- Mortgage interest rates have been fairly low, causing many to finance new construction. New construction adds to the County's base for spreading future taxes.
- The County General Fund expenditures for 2006 are budgeted to increase 7.5 percent (\$334,617) over the 2005 original budget. The 2006 anticipated revenues, other than tax levy, state aid, and special assessments, are budgeted to increase 12.4 percent (\$156,068) over the 2005 original budget.
- The 2006 property tax levy for the County increased 2.3 percent (\$153,264) from 2005; but due to state aid decreases (\$22,206), the net tax levy (the amount spread to taxpayers) increased 3.0 percent (\$175,470) over the net tax levy for 2005.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Yellow Medicine County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County Auditor/Treasurer, Carolyn Sherlin, Yellow Medicine County Courthouse, 415 Ninth Avenue, Suite 102, Granite Falls, Minnesota 56241.

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, 2005**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 400,914	\$ -	\$ 400,914
Petty cash and change funds	150	-	150
Due from other governments	323,712	-	323,712
Capital assets			
Depreciable - net	-	47,307	47,307
Total Assets	\$ 724,776	\$ 47,307	\$ 772,083
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 35,710	\$ -	\$ 35,710
Salaries payable	99,132	-	99,132
Compensated absences payable	-	116,655	116,655
Due to other governments	35,183	-	35,183
Deferred revenue	82,271	(82,271)	-
Long-term liabilities			
Due after one year	-	12,962	12,962
Total Liabilities	\$ 252,296	\$ 47,346	\$ 299,642
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved, undesignated	472,480	(472,480)	
Total Liabilities and Fund Balance	\$ 724,776		
Net Assets			
Invested in capital assets		\$ 47,307	\$ 47,307
Unrestricted		425,134	425,134
Total Net Assets		\$ 472,441	\$ 472,441
Reconciliation of the Governmental Fund Balance to Net Assets			
Fund Balance - Governmental Fund			\$ 472,480
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.			47,307
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental fund.			82,271
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental fund.			(129,617)
Net Assets - Governmental Activities			\$ 472,441

**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, 2005**

	General Fund	Reconciliation	Governmental Activities
Revenues			
Intergovernmental	\$ 2,264,623	\$ (14,689)	\$ 2,249,934
Charges for services	1,067,876	74,064	1,141,940
Miscellaneous	57,742	-	57,742
Total Revenues	\$ 3,390,241	\$ 59,375	\$ 3,449,616
Expenditures/Expenses			
Public safety	3,333,684	49,178	3,382,862
Excess of Revenues Over (Under) Expenditures/Expenses	\$ 56,557	\$ 10,197	\$ 66,754
Fund Balance/Net Assets - January 1	415,923	(10,236)	405,687
Fund Balance/Net Assets - December 31	\$ 472,480	\$ (39)	\$ 472,441

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

Net Change in Fund Balance

\$ 56,557

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.

59,375

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

(16,226)

In the statement of activities, only the gain or loss on the disposal of capital assets are reported; whereas, in the fund, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the cost of capital assets disposed of.

(17,190)

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.

Increase in compensated absences payable

(15,762)

Change in Net Assets of Governmental Activities

\$ 66,754

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

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 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.

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.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Central Minnesota Community Corrections considers all revenues as available if collected within 60 days after the end of the current period. Charges for services and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized as expenditures to the extent that they have matured.

D. Budgetary Data

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

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, and Net Assets or Equity

1. Assets

Cash is on deposit with Crow Wing County.

The amounts due from other governments, totaling \$323,712, 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.

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.

**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 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. 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)

Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2005, are:

	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
Capital assets depreciated				
Office furniture and equipment	\$ 192,463	\$ -	\$ -	\$ 192,463
Automotive	65,256	-	17,776	47,480
Leasehold improvements	46,358	-	24,900	21,458
	<u>\$ 304,077</u>	<u>\$ -</u>	<u>\$ 42,676</u>	<u>\$ 261,401</u>
Less: accumulated depreciation for				
Office furniture and equipment	\$ 143,893	\$ 11,761	\$ -	\$ 155,654
Automotive	58,723	1,400	17,776	42,347
Leasehold improvements	20,738	3,065	7,710	16,093
	<u>\$ 223,354</u>	<u>\$ 16,226</u>	<u>\$ 25,486</u>	<u>\$ 214,094</u>
Total Capital Assets, Net	<u>\$ 80,723</u>	<u>\$ (16,226)</u>	<u>\$ 17,190</u>	<u>\$ 47,307</u>

B. Liabilities

Deferred Revenue

Deferred revenue of \$82,271 consists of grants receivable which are not collected soon enough after year-end to pay liabilities of the current year.

Operating Leases

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**

2. Detailed Notes

B. Liabilities

Operating Leases (Continued)

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, 2005, the remaining payments to be made on the lease total \$576,245, which is to be paid in monthly increments of \$4,802.

Year Ending December 31	Amount Due Per Year
2006	\$ 57,624
2007	57,624
2008	57,624
2009	57,624
2010	57,624
2011 - 2015	288,125
Total	\$ 576,245

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 2005 were:

Payable at January 1	\$ 113,855
Net increase during 2005	15,762
Payable at December 31	\$ 129,617

Of the total compensated absences of \$129,617, the amount due within one year is \$116,655.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

3. Pension Plans

A. Plan Description

All full-time and certain part-time employees of Central Minnesota Community Corrections are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the 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.

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

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

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

3. Pension Plans

A. Plan Description (Continued)

For all Public Employees Correctional Fund members and for Public Employees Retirement Fund members whose annuity is calculated using Method 1, 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.

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 receiving them yet are bound by the provisions in effect at the time they last terminated public service.

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from 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 in 2005. Contribution rates in the Coordinated Plan will increase in 2006 to 5.50 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

3. Pension Plans

B. Funding Policy (Continued)

The Community Corrections was required to contribute the following percentages of annual covered payroll in 2005:

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

The Community Corrections' contributions for the years ending December 31, 2005, 2004, and 2003, for PERF and the PECF were:

	Public Employees Retirement Fund	Public Employees Correctional Fund
	<u> </u>	<u> </u>
2005	\$ 86,108	\$ 47,153
2004	86,042	53,724
2003	89,099	61,905

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

4. Risk Management

Central Minnesota Community Corrections is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The Community Corrections has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties 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.

**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

4. Risk Management (Continued)

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 \$760,000 per claim in 2005. 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 MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the Community Corrections in a method and amount to be determined by 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, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental				
Federal grants				
Juvenile Accountability Incentive Block Grant	\$ 12,178	\$ 12,178	\$ 12,178	\$ -
State grants and aids				
PERA rate increase aid	\$ -	\$ -	\$ 9,750	\$ 9,750
Minnesota Department of Corrections	1,069,708	1,069,708	1,620,199	550,491
Total state grants and aids	\$ 1,069,708	\$ 1,069,708	\$ 1,629,949	\$ 560,241
Local apportionment				
Aitkin County	\$ 93,426	\$ 93,426	\$ 156,406	\$ 62,980
Crow Wing County	179,065	179,065	299,778	120,713
Morrison County	116,781	116,781	166,312	49,531
Total local apportionment	\$ 389,272	\$ 389,272	\$ 622,496	\$ 233,224
Total intergovernmental	\$ 1,471,158	\$ 1,471,158	\$ 2,264,623	\$ 793,465
Charges for services	1,911,866	1,911,866	1,067,876	(843,990)
Miscellaneous	-	-	57,742	57,742
Total Revenues	\$ 3,383,024	\$ 3,383,024	\$ 3,390,241	\$ 7,217
Expenditures				
Current				
Public safety	3,651,234	3,652,628	3,333,684	318,944
Net Change in Fund Balance	\$ (268,210)	\$ (269,604)	\$ 56,557	\$ 326,161
Fund Balance - January 1	415,923	415,923	415,923	-
Fund Balance - December 31	\$ 147,713	\$ 146,319	\$ 472,480	\$ 326,161

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**CENTRAL MINNESOTA COMMUNITY CORRECTIONS
BRAINERD, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2005**

Budgetary Information

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

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

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

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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 basic financial statements of Central Minnesota Community Corrections as of and for the year ended December 31, 2005, and have issued our report thereon dated October 27, 2006.

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, 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 27, 2006