

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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

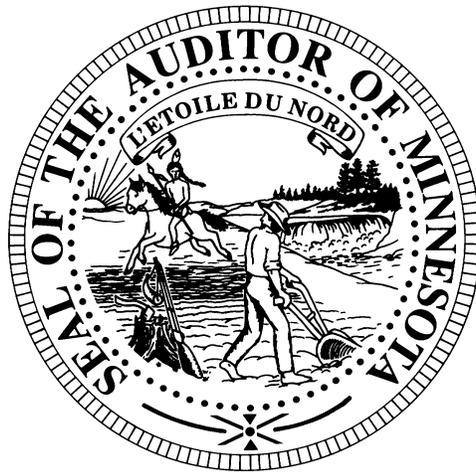
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**STEVENS TRAVERSE GRANT
PUBLIC HEALTH
MORRIS, MINNESOTA**

For the Year Ended December 31, 2005



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

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2005

	<u>Position</u>	<u>County</u>	<u>Term Expires</u>
Joint Public Health Board			
Gerald Kaus	Member	Traverse	December 31, 2008
David Naatz	Member	Traverse	December 31, 2006
Norma Holtz	Member	Traverse	December 31, 2008
Herb Kloos	Member	Stevens	December 31, 2006
Larry Sayre	Chair	Stevens	December 31, 2008
Robert Stevenson	Member	Stevens	December 31, 2006
Todd Schneeberger	Member	Grant	December 31, 2008
Vernell Wagner	Vice Chair	Grant	December 31, 2008
Ronald Woltjer	Member	Grant	December 31, 2006
Joint Public Health Director			
Betty Windom-Kirsch			Indefinite

Note: The Public Health Advisory Committee is no longer active.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Stevens Traverse Grant Joint Public Health Board
Stevens Traverse Grant Public Health

We have audited the accompanying basic financial statements of Stevens Traverse Grant Public Health as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of Stevens Traverse Grant Public Health's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Stevens Traverse Grant Public Health at December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 9, 2007

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

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

Stevens Traverse Grant Public Health's (Health Service) Management's Discussion and Analysis (MD&A) provides an overview of the Health Service'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 Health Service's financial statements.

The Health Service is a joint powers enterprise operation of Grant, Stevens, and Traverse Counties created to provide community health care for the residents of the tri-county area.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The Health Service's basic financial statements consist of two parts: the financial statements and the notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The financial statements present the Health Service's financial activities and consist of the following:

- The statement of net assets compares assets and liabilities to give an overall view of the financial health of the Health Service.
- The statement of revenues, expenses, and changes in net assets provides information on an aggregate view of the Health Service's operations. All of the current year's revenues and expenses are taken into account regardless of when the cash was received or paid.
- The statement of cash flows provides sources and uses of cash for the Health Service.

FINANCIAL ANALYSIS

	Net Assets			
	2005	2004	Increase (Decrease)	Percent Change (%)
Assets				
Current and other assets	\$ 665,796	\$ 662,219	\$ 3,577	0.54
Capital assets	682	11,099	(10,417)	(93.85)
Total Assets	\$ 666,478	\$ 673,318	\$ (6,840)	(1.02)
Liabilities				
Current liabilities	\$ 74,036	\$ 26,605	\$ 47,431	178.28
Noncurrent liabilities	19,964	50,010	(30,046)	(60.08)
Total Liabilities	\$ 94,000	\$ 76,615	\$ 17,385	22.69
Net Assets				
Invested in capital assets	\$ 682	\$ 11,099	\$ (10,417)	(93.86)
Unrestricted	571,796	585,604	(13,808)	(2.36)
Total Net Assets	\$ 572,478	\$ 596,703	\$ (24,225)	(4.06)

The increase in total liabilities from 2004 to 2005 is mainly due to an increase in due to other governments of \$12,440. There were three large payables in 2005 that contributed to the variance, including a payable for \$4,860 to the Minnesota State Auditor, \$3,921 due to the Department of Revenue, and \$4,320 due to Mid-State Community Health Services.

	Changes in Net Assets			
	2005	2004	Increase (Decrease)	Percent Change (%)
Operating revenues				
Charges for services	\$ 564,112	\$ 444,805	\$ 119,307	26.82
Intergovernmental	345,271	342,656	2,615	0.76
Miscellaneous	7,275	40,671	(33,396)	(82.11)
Total operating revenues	\$ 916,658	\$ 828,132	\$ 88,526	10.69
Nonoperating revenues				
Interest income	13,485	4,060	9,425	232.14
Transfers from member counties	281,620	356,687	(75,067)	(21.05)
Total Revenues	\$ 1,211,763	\$ 1,188,879	\$ 22,884	1.92
Operating expenses				
Personal services	\$ 804,673	\$ 734,753	\$ 69,920	9.52
Nursing services	186,399	135,373	51,026	37.69
Supplies	60,166	64,168	(4,002)	(6.24)
Maternal and child health	31,801	29,260	2,541	8.68
Women, Infants, and Children program	80,444	58,064	22,380	38.54
Title III-B aging	16,878	39,056	(22,178)	(56.79)
Tobacco-Free Communities for Children program	45,210	19,780	25,430	128.56
Depreciation	10,417	6,150	4,267	69.38
Total Expenses	\$ 1,235,988	\$ 1,086,604	\$ 149,384	13.75
Change in Net Assets	\$ (24,225)	\$ 102,275	\$ (126,500)	(123.69)

(Unaudited)

Page 4

The decrease in the Change in Net Assets is mainly attributed to a combination of Grant County being combined with Stevens Traverse Grant Public Health for the full year and a large decrease in subsidies received from member counties in 2005.

CAPITAL ASSETS ADMINISTRATION

	Capital Assets (Net of Depreciation)			
	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>	<u>Percent Change (%)</u>
Furniture and equipment	<u>\$ 682</u>	<u>\$ 11,099</u>	<u>\$ (10,417)</u>	<u>(93.86)</u>

The decrease in capital assets is the current year’s depreciation expense. The Health Service increased its capitalization threshold from \$500 to \$5,000. There were no additions exceeding the Health Service’s capitalization threshold during the year.

ECONOMIC FACTORS

- The State of Minnesota’s finances have been improving, and the state could achieve a balanced budget.
- Stevens County’s unemployment rate continues to be one of the lowest in the state.

CONTACTING THE HEALTH SERVICE’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Health Service’s finances and to show the Health Service’s accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Public Health Administrator, Betty Windom-Kirsch, 621 Pacific Avenue, Morris, Minnesota 56267.

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BASIC FINANCIAL STATEMENTS

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

Assets

Current Assets

Cash in custody of Stevens County Treasurer	\$ 469,453
Petty cash and change funds	25
Accounts receivable	18,196
Due from other governments	128,122
	<hr/>
Total current assets	\$ 615,796

Noncurrent Assets

Advance to other governments (Note 5)	\$ 50,000
	<hr/>

Capital Assets

Furniture and equipment	\$ 13,141
Less: accumulated depreciation	(12,459)
	<hr/>

Net capital assets	\$ 682
	<hr/>

Total noncurrent assets	\$ 50,682
	<hr/>

Total Assets	\$ 666,478
	<hr/>

Liabilities

Current Liabilities

Accounts payable	\$ 14,112
Salaries payable	4,231
Compensated absences payable	41,033
Due to other governments	14,660
	<hr/>

Total current liabilities	\$ 74,036
	<hr/>

Noncurrent Liabilities

Compensated absences	19,964
	<hr/>

Total Liabilities	\$ 94,000
	<hr/>

Net Assets

Invested in capital assets	\$ 682
Unrestricted	571,796
	<hr/>
Total Net Assets	\$ 572,478
	<hr/>

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Operating Revenues	
Charges for services	<u>\$ 564,112</u>
Intergovernmental	
Minnesota Department of Health	
Community health services	\$ 114,935
Family planning	46,137
Tobacco-Free Communities for Children program	46,089
Federal grants	
Women, Infants, and Children program	78,273
Title III-B aging grants	6,000
Temporary assistance for needy families	22,036
Maternal and child health	<u>31,801</u>
Total intergovernmental	<u>\$ 345,271</u>
Miscellaneous	<u>\$ 7,275</u>
Total Operating Revenues	<u>\$ 916,658</u>
Operating Expenses	
Personal services	\$ 804,673
Nursing services	186,399
Supplies	60,166
Women, Infants, and Children program	80,444
Title III-B aging grant	16,878
Maternal and child health	31,801
Tobacco-Free Communities for Children program	45,210
Depreciation	<u>10,417</u>
Total Operating Expenses	<u>\$ 1,235,988</u>
Operating Income (Loss)	<u>\$ (319,330)</u>
Nonoperating Revenues (Expenses)	
Interest income	\$ 13,485
Transfers from member counties	<u>281,620</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 295,105</u>
Change in Net Assets	<u>\$ (24,225)</u>
Net Assets - January 1	<u>596,703</u>
Net Assets - December 31	<u>\$ 572,478</u>

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers	\$ 536,046
Payments to suppliers	(410,507)
Payments to employees	<u>(801,999)</u>
Net cash provided by (used in) operating activities	\$ (676,460)
Cash Flows from Noncapital Financing Activities	
Intergovernmental receipts	\$ 368,523
Transfers from member counties	<u>281,620</u>
Net cash provided by (used in) noncapital financing activities	\$ 650,143
Cash Flows from Investing Activities	
Interest receipts	<u>\$ 12,698</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (13,619)
Cash and Cash Equivalents at January 1	<u>483,097</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 469,478</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<u>\$ (319,330)</u>
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	\$ 10,417
Intergovernmental revenue included in operating income (loss)	(345,271)
Changes in assets and liabilities	
Accounts receivable	(321)
Due from other governments	(35,020)
Accounts payable	2,271
Salaries payable	(567)
Due to other governments	8,120
Compensated absences - current	33,287
Compensated absences - long-term	<u>(30,046)</u>
Total adjustments	<u>\$ (357,130)</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (676,460)</u></u>

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

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

1. Summary of Significant Accounting Policies

Stevens Traverse Grant Public Health's (Health Service) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. 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 (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Health Service has the option to apply FASB pronouncements issued after that date, the Health Service has chosen not to do so. The more significant accounting policies established in GAAP and used by the Health Service are discussed below.

A. Financial Reporting Entity

Stevens Traverse Public Health was established pursuant to Minn. Stat. ch. 145A and a joint powers agreement effective July 1, 1995. Effective July 1, 2004, Grant County Public Health formally joined the organization resulting in the new entity, Stevens Traverse Grant Public Health. The Stevens Traverse Grant Joint Public Health Board consists of nine members--comprised of three Commissioners from each of the respective counties.

The primary functions of the Health Service are to prevent illness and to promote efficiency and economy in the delivery of community health services.

The Health Service is not a component unit of any of the three member counties, nor does it have any component units. The Health Service's financial statements will not be included in any member county's financial statements.

Stevens County, as an agent, reports the cash transactions of Stevens Traverse Grant Public Health in an agency fund on its annual financial statements.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The Health Service's operations are accounted for as an enterprise fund, with a set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. Enterprise funds are used to account for (1) operations that provide a service to citizens financed primarily by charging users for that service, and (2) activities where the periodic measurement of net income is considered appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Measurement Focus and Basis of Accounting

Stevens Traverse Grant Public Health's financial statements 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is the Health Service's policy to use restricted resources first and then unrestricted resources as needed.

D. Budget

The Health Service adopts an annual budget prepared on the accrual basis. The budget is approved by the Stevens Traverse Grant Joint Public Health Board and submitted to all member counties. The County Board of each county represented approves or disapproves its portion of the budget.

E. Assets, Liabilities, and Net Assets

1. Assets

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents include cash in custody of the Stevens County Treasurer and petty cash and change funds.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets

1. Assets (Continued)

Receivables

The Health Service provides services to certain clients covered by various third-party reimbursement programs at varying rates, generally below established charges. Variances from established charges are recorded on the basis of preliminary estimates of the amounts to be received from third parties and adjusted in future periods as final settlements are determined.

Capital Assets and Depreciation

Capital assets, which include furniture and equipment, are reported in the financial statements. Capital assets are defined by the Health Service as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Depreciation is determined using the straight-line method for the estimated useful lives of the assets:

Furniture and equipment	3 - 20 years
-------------------------	--------------

2. Liabilities

Compensated Absences

The accompanying financial statements include a liability for unused vacation that has vested. The Health Service's personnel policy provides that employees earn vacation leave dependent upon their years of service. Vacation leave may be accumulated to a maximum of 31 days. Sick leave is accumulated at one day per month for full-time employees. Part-time employees earn sick leave on a prorated basis. Unvested sick leave, approximately \$67,350 at December 31, 2005, is available to employees in the event of illness-related absences and is not paid to them at termination.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

F. Revenues and Expenses

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.

Nonexchange Transactions

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 Health Service perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met, usually when the corresponding expense 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. Gifts and contributions from individuals are also considered voluntary nonexchange transactions and are generally recognized when received.

Exchange Transactions

Other revenues, such as charges for services and investment income, are recognized as revenue when earned.

Operating and Nonoperating Revenues

The Health Service distinguishes operating revenues from nonoperating revenues. Operating revenues generally result from providing services and producing and delivering goods in connection with an activity's principal ongoing operations. Operating revenues include charges for services and intergovernmental operating grants, since they constitute the Health Service's ongoing operations. All revenues not meeting this definition are reported as nonoperating revenues.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

F. Revenues and Expenses (Continued)

2. Expenses

Stevens Traverse Grant Public Health recognizes expenses, including compensated absences, when incurred. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets.

G. Use of Estimates

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

2. Detailed Notes

A. Assets

1. Receivables

Receivables as of December 31, 2005, are as follows:

Accounts	\$	18,196
Due from other governments		<u>128,122</u>
Total	\$	<u><u>146,318</u></u>

Stevens Traverse Grant Public Health did not have any receivables scheduled to be collected beyond one year.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

2. Detailed Notes

A. Assets (Continued)

2. Capital Assets

A summary of the changes in capital asset accounts for the year ended December 31, 2005, is:

	Balance January 1, 2005	Depreciation Expense	Additions	Deletions	Balance December 31, 2005
Capital assets, depreciated					
Furniture and equipment	\$ 52,472	\$ -	\$ -	\$ 39,331	\$ 13,141
Less: accumulated depreciation	(41,373)	(10,417)	-	(39,331)	(12,459)
Net Capital Assets	<u>\$ 11,099</u>	<u>\$ (10,417)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 682</u>

Deletions of capital assets are due to a change in the capitalization threshold.

B. Liabilities

Long-Term Debt

The following is a summary of the changes in long-term debt of Stevens Traverse Grant Public Health.

Compensated absences payable - January 1	\$ 57,756
Change in compensated absences	<u>3,241</u>
Compensated absences payable - December 31	<u>\$ 60,997</u>
Due Within One Year	<u>\$ 41,033</u>

3. Pension Plans

A. Plan Description

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

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

3. Pension Plans

A. Plan Description (Continued)

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.

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

For 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 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. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

3. Pension Plans (Continued)

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Health Service 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 increased in 2006 to 5.50 percent. The Health Service is required to contribute the following percentages of annual covered payroll:

	<u>2005</u>	<u>2006</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	5.53	6.00

The Health Service's contributions for the years ending December 31, 2005, 2004, and 2003, were \$37,547, \$32,288, and \$27,717, respectively, equal to the contractually required contributions for each year as set by state statute.

4. Risk Management

Stevens Traverse Grant Public Health is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To cover these risks, the Health Service is a member of the Minnesota Counties Insurance Trust (MCIT). The Health Service retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

The Health Service's risk of loss associated with injuries to employees is covered by membership in the MCIT Workers' Compensation Division. The risk associated with the Health Service operation has not been separately identified.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

Prime West Central County-Based Purchasing Initiative

The Prime West Central County-Based Purchasing Initiative was established in December 1998 by a joint powers agreement among Stevens, Traverse, Grant, and seven other counties, under the authority of Minn. Stat. § 471.59. The purpose of this agreement is to plan and administer a multi-county, county-based purchasing program for medical assistance and general assistance medical care services and other health care programs as authorized by Minn. Stat. § 256B.692.

Control of the Prime West Central County-Based Purchasing Initiative is vested in a Joint Powers Board, comprising one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the County he or she represents. In the event of termination of the joint powers agreement, all property purchased or owned pursuant to this agreement shall be sold, and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share.

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties, if necessary, to cover operational costs. In 1999, Steven Traverse Public Health provided \$50,000 in the form of an initial start-up loan to the Prime West Central County-Based Purchasing Initiative. Stevens Traverse Grant Public Health did not contribute any funds in 2005.

Douglas County acts as fiscal agent for the Prime West Central County-Based Purchasing Initiative and reports the cash transactions as an agency fund on its financial statements. Complete financial information can be obtained from its administrative office at Prime West Health Systems, Douglas County Courthouse, 305 - 8th Avenue West, Alexandria, Minnesota 56308.

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005**

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS RESOLVED

Accounts Receivable Trial Balance (03-1)

The accounts receivable trial balance report contains errors, and Stevens Traverse Grant Public Health (Health Service) was not able to determine the cause of the problem.

Resolution

The Health Service is able to provide alternative documentation to verify that the year-end balance of receivables is reasonably accurate.

Account Activity Report Coding Errors (04-1)

Account activity reports provided were not sufficiently detailed to analyze the Health Service's grant revenues, especially those received through Mid-State Community Health Services.

Resolution

For the year ended December 31, 2005, the reports provided were materially correct, with sufficient detail provided.

OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans; and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the Stevens Traverse Grant Joint Public Health Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the Stevens Traverse Grant Joint Public Health Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the Stevens Traverse Grant Joint Public Health Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the Stevens Traverse Grant Joint Public Health Board will have to decide whether to hire an actuary.

If applicable for Stevens Traverse Grant Public Health, GASB Statements 43 and 45 would be implemented for the years ending December 31, 2008 and 2009, respectively.



REBECCA OTTO
STATE AUDITOR

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REPORT ON MINNESOTA LEGAL COMPLIANCE

Stevens Traverse Grant Joint Public Health Board
Stevens Traverse Grant Public Health

We have audited the basic financial statements of Stevens Traverse Grant Public Health as of and for the year ended December 31, 2005, and have issued our report thereon dated February 9, 2007.

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 contracting and bidding and public indebtedness because Stevens Traverse Grant Public Health did not let any contracts and has no debt.

The results of our tests indicate that, for the items tested, Stevens Traverse Grant Public Health complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Stevens Traverse Grant Joint Public Health Board and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 9, 2007