

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA

YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

Year Ended December 31, 2006



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

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**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

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**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2006

<u>Community Health Board</u>	<u>Position</u>	<u>County</u>
Dr. Richard Kastner	Chair	Grant
Todd Schneeberger	Member	Grant
Jeanne Olson	Vice Chair	Pope
Larry Kittelson	Member	Pope
Robert Stevenson	Member	Stevens
Paul Watzke	Member	Stevens
Norma Holtz	Member	Traverse
Gerald Kaus	Member	Traverse

<u>Advisory Committee</u>	<u>Position</u>	<u>County</u>
Deb Hengel	Member	Grant
Dr. Richard Kastner	Member	Grant
Jeanne Olson	Member	Pope
Cody Rogahn	Member	Pope
Robert Stevenson	Member	Stevens
Karla Van Moorlehem	Member	Stevens
Cheri Rikimoto	Chair	Traverse
Gerald Kaus	Member	Traverse

Co-Administrators

Betty Windom-Kirsch, Stevens Traverse Public Health

Sharon Braaten, Pope County Public Health

Fiscal Officer

Karen Folkens

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Community Health Board
Mid-State Community Health Services

We have audited the accompanying financial statements of the governmental activities and the General Fund of Mid-State Community Health Services as of and for the year ended December 31, 2006, which collectively comprise Mid-State Community Health Services' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mid-State Community Health Services' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Mid-State Community Health Services as of December 31, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, listed in the table of contents, 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

April 10, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006
(Unaudited)

Mid-State Community Health Services (Mid-State) Management's Discussion and Analysis (MD&A) provides an overview of Mid-State's financial activities for the fiscal year ended December 31, 2006. 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.

Mid-State is a joint powers enterprise operation of Grant, Pope, Stevens, and Traverse Counties, created with the intention to distribute grants received by other governments to the Public Health programs of the counties in the joint powers.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Mid-State's basic financial statements consist of two statements that combine government-wide financial statements and fund financial statements, a budgetary comparison statement, and 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 first column of each of the first two statements presents governmental fund data. These columns focus on how money flows in and out and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. These columns provide a detailed short-term view of Mid-State's operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We reconcile the relationship (or differences) between the General Fund and governmental activities (reported in the third column) in the center column of each statement.

The third column of each of the first two statements presents the governmental activities Statement of Net Assets and the Statement of Activities, which provide information about the activities of Mid-State as a whole and present a longer-term view of its finances. These columns tell how these services were financed in the short term as well as what remains for future spending. These columns include all of the assets and liabilities of Mid-State. 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

Net Assets

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>	<u>Percent Change (%)</u>
Assets				
Current and other assets	\$ 275,323	\$ 231,331	\$ 43,992	19.02
Liabilities				
Current liabilities	<u>171,813</u>	<u>125,195</u>	<u>46,618</u>	37.24
Net Assets				
Unrestricted	<u>\$ 103,510</u>	<u>\$ 106,136</u>	<u>\$ (2,626)</u>	(2.48)

The decrease in total net assets is due mainly to \$27,429 in deferred revenue-uneared. Of the \$27,429, \$15,968 is contributed to unearned revenue from the Bioterrorism grant, and the remaining \$11,461 is unearned revenue from the Family Planning grant.

Changes in Net Assets

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>	<u>Percent Change (%)</u>
Revenues				
Intergovernmental	\$ 738,659	\$ 696,770	\$ 41,889	6.01
Miscellaneous	<u>54,120</u>	<u>78,361</u>	<u>(24,241)</u>	(30.94)
Total Revenues	<u>\$ 792,779</u>	<u>\$ 775,131</u>	<u>\$ 17,648</u>	2.28
Expenses				
Administration	\$ 35,053	\$ 38,135	\$ (3,082)	(8.09)
Intergovernmental	753,663	694,196	59,467	8.57
Miscellaneous	<u>6,689</u>	<u>20,631</u>	<u>(13,942)</u>	67.58
Total Expenses	<u>\$ 795,405</u>	<u>\$ 752,962</u>	<u>\$ 42,443</u>	5.64
Change in Net Assets	<u>\$ (2,626)</u>	<u>\$ 22,169</u>	<u>\$ (24,795)</u>	(111.85)

The change in net assets is due mainly to a decrease in miscellaneous revenues caused by a decline in the amount of private fees received for the Family Planning program.

Budgetary Highlights

The Mid-State Community Health Services Board did not make any budgetary amendments/revisions in 2006.

Budgeted revenues exceeded actual revenues by \$21,483, primarily due to Family Planning and Community Health Services.

Budgeted expenditures exceeded actual expenditures by \$20,516 due to over/under spending on various grants.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- 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 BOARD'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

EXHIBIT 1

**GENERAL FUND BALANCE SHEET AND
STATEMENT OF NET ASSETS OF GOVERNMENTAL ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2006**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash with Stevens County Treasurer	\$ 141,881	\$ -	\$ 141,881
Accounts receivable	14,211	-	14,211
Due from other governments	119,231	-	119,231
	\$ 275,323	\$ -	\$ 275,323
<u>Liabilities</u>			
Accounts payable	\$ 18,395	\$ -	\$ 18,395
Due to other governments	125,989	-	125,989
Deferred revenue - unavailable	8,138	(8,138)	-
Deferred revenue - unearned	27,429	-	27,429
	\$ 179,951	\$ (8,138)	\$ 171,813
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	95,372	\$ (95,372)	
	\$ 275,323		
Net Assets			
Unrestricted		\$ 103,510	\$ 103,510
Reconciliation of Governmental Fund Balance to Net Assets			
Fund Balance - General Fund			\$ 95,372
Long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			8,138
Net Assets - Governmental Activities			\$ 103,510

**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

EXHIBIT 2

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
Revenues			
Intergovernmental			
Federal Grants			
Women, Infants, and Children Food Program	\$ 141,177	\$ (9,797)	\$ 131,380
Early childhood tracking	2,835	-	2,835
Educate Now and Babies Later	18,260	-	18,260
Childhood Immunization	780	-	780
Public Health Preparedness	98,712	-	98,712
Temporary Assistance for Needy Families	26,510	-	26,510
Maternal and Child Health	49,468	-	49,468
State Grants			
Community Health Services	169,980	-	169,980
Family Planning	73,325	-	73,325
Tobacco-Free Communities	94,294	-	94,294
Child and Teen Checkup Outreach	61,155	-	61,155
Educate Now and Babies Later	11,960	-	11,960
Total intergovernmental	\$ 748,456	\$ (9,797)	\$ 738,659
Miscellaneous	54,120	-	54,120
Total Revenues	\$ 802,576	\$ (9,797)	\$ 792,779
Expenditures			
Administration			
Services and charges	\$ 28,662	\$ -	\$ 28,662
Independent auditing	6,391	-	6,391
Total administration	\$ 35,053	\$ -	\$ 35,053
Intergovernmental services			
Community Health Services	\$ 163,638	\$ -	\$ 163,638
Maternal and Child Health	49,468	-	49,468
Women, Infants, and Children Food Program	131,381	-	131,381
MBCCCP	500	-	500
Family Planning	73,325	-	73,325
Early intervention grant	2,835	-	2,835
Home Visiting	26,510	-	26,510
Educate Now and Babies Later	30,217	-	30,217
Public Health Preparedness	105,588	-	105,588
Child and Teen Checkup Outreach	75,607	-	75,607
Tobacco-Free Communities	102,732	(8,138)	94,594
Total intergovernmental services	\$ 761,801	\$ (8,138)	\$ 753,663
Miscellaneous	\$ 6,689	\$ -	\$ 6,689

**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

**EXHIBIT 2
(Continued)**

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2006**

	General Fund	Adjustments	Governmental Activities
Total Expenditures	\$ 803,543	\$ (8,138)	\$ 795,405
Net Change in Fund Balance	\$ (967)	\$ (1,659)	\$ (2,626)
Fund Balance/Net Assets - January 1	96,339	9,797	106,136
Fund Balance/Net Assets - December 31	\$ 95,372	\$ 8,138	\$ 103,510

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

Net Change in Fund Balance		\$ (967)
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Under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues is the increase (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 8,138	
Deferred revenue - January 1	(9,797)	(1,659)
Net Change in Net Assets of Governmental Activities		\$ (2,626)

**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

EXHIBIT 3

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 30, 2006**

	Budgeted Amount		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Intergovernmental				
Federal Grants				
Women, Infants, and Children Food Program	\$ 110,922	\$ 110,922	\$ 141,177	\$ 30,255
Early childhood tracking	-	-	2,835	2,835
Educate Now and Babies Later	18,260	18,260	18,260	-
Childhood Immunization	-	-	780	780
Public Health Preparedness	111,166	111,166	98,712	(12,454)
Temporary Assistance for Needy Families	28,764	28,764	26,510	(2,254)
Maternal and Child Health	49,468	49,468	49,468	-
State Grants				
Community Health Services	248,212	248,212	169,980	(78,232)
Family Planning	121,549	121,549	73,325	(48,224)
Tobacco-Free Communities	74,558	74,558	94,294	19,736
Child and Teen Checkup Outreach	48,420	48,420	61,155	12,735
Educate Now and Babies Later	12,740	12,740	11,960	(780)
Total intergovernmental	\$ 824,059	\$ 824,059	\$ 748,456	\$ (75,603)
Miscellaneous	-	-	54,120	54,120
Total Revenues	\$ 824,059	\$ 824,059	\$ 802,576	\$ (21,483)
Expenditures				
Administration				
Services and charges	\$ 36,373	\$ 36,373	\$ 28,662	\$ 7,711
Independent auditing	6,000	6,000	6,391	(391)
Medical consultant services	600	600	-	600
Total administration	\$ 42,973	\$ 42,973	\$ 35,053	\$ 7,920
Intergovernmental services				
Community Health Services Grant	\$ 220,102	\$ 220,102	\$ 163,638	\$ 56,464
Maternal and Child Health	44,521	44,521	49,468	(4,947)
Women, Infants, and Children Food Program	110,922	110,922	131,381	(20,459)
MBCCCP	-	-	500	(500)
Family Planning Grant	114,499	114,499	73,325	41,174
Early intervention grant	-	-	2,835	(2,835)
Home Visiting Grant	28,764	28,764	26,510	2,254
Educate Now and Babies Later Grant	28,985	28,985	30,217	(1,232)
Public Health Preparedness Grant	106,394	106,394	105,588	806
Child and Teen Checkup Outreach Grant	52,341	52,341	75,607	(23,266)
Tobacco-Free Communities	74,558	74,558	102,732	(28,174)
Total intergovernmental services	\$ 781,086	\$ 781,086	\$ 761,801	\$ 19,285
Miscellaneous	\$ -	\$ -	\$ 6,689	\$ (6,689)

**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

***EXHIBIT 3
(Continued)***

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 30, 2006**

	Budgeted Amount		Actual Amounts	Variance With Final Budget
	Original	Final		
Total Expenditures	\$ 824,059	\$ 824,059	\$ 803,543	\$ 20,516
Net Change in Fund Balance	\$ -	\$ -	\$ (967)	\$ (967)
Fund Balance/Net Assets - January 1	96,339	96,339	96,339	-
Fund Balance/Net Assets - December 31	<u>\$ 96,339</u>	<u>\$ 96,339</u>	<u>\$ 95,372</u>	<u>\$ (967)</u>

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**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006

1. Summary of Significant Accounting Policies

Mid-State Community Health Services (Mid-State) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2006. 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 Mid-State are discussed below.

A. Financial Reporting Entity

Mid-State was established January 1, 1983, by a joint powers agreement among Grant, Pope, Stevens, and Traverse Counties. The agreement was established to secure more efficient health care services for the mutual benefit of each of the joint participants. The joint powers agreement remains in force until any single county notifies the State Board of Health and the other parties of its intentions to withdraw, at least one year before the beginning of the calendar year in which it takes effect.

Control is vested in Mid-State's Board. The Board consists of eight members, two from each county. Each member of the Board is appointed by the County Commissioners of the county they represent. Members of the Board serve an annual term, with no more than three consecutive terms.

The financial activities of Mid-State are accounted for in an agency fund by Stevens County. The employees who administer the activities of Mid-State are considered to be employees of Stevens Traverse Grant Public Health.

Mid-State is a joint venture independent of the counties that formed it. Each county has an ongoing responsibility to provide funding for the operating costs of the Board and Advisory Committee. The funding is allocated in accordance with the actual expenses incurred by representatives of the respective counties on the Board and its advisory committees. In addition, administrative operating costs are allocated proportionately, with total subsidy funds available to each member county.

**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The financial statements combine fund level financial statements (General Fund column) and government-wide financial statements (governmental activities column). These statements include the overall financial activities of Mid-State.

The government-wide columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Mid-State's net assets are reported as unrestricted net assets.

Mid-State reports one governmental fund. The General Fund is Mid-State's primary operating fund. It accounts for all the financial resources of the organization.

C. Measurement Focus and Basis of Accounting

The governmental activities columns 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 columns (General Fund) 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. Mid-State considers all revenues as available if collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments, which are recognized as expenditures to the extent that they have matured. When both restricted and unrestricted resources are available for use, it is Mid-State's policy to use restricted resources first and then unrestricted resources as needed.

Intra-fund transactions have not been eliminated in the financial statements. Eliminations have not been made so that expenditures for each of the grants are reported in their entirety.

**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets

1. Assets

Due From/To Other Governments

Amounts represent receivables and payables related to grants from other federal, state, and local governments for program administration.

Capital Assets and Depreciation

Capital assets are reported in the governmental activities column in the government-wide financial statements. Mid-State has adopted Stevens County's capitalization policy, which defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Currently, Mid-State has no capital assets that meet the threshold for capitalization.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Equipment of Mid-State is depreciated using the straight-line method over five years.

2. Liabilities

Deferred Revenue

Mid-State's fund and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

2. Detailed Notes on Accounts

A. Assets

Cash Deposits

As of December 31, 2006, Mid-State had \$141,881 on deposit with Stevens County. Cash transactions are administered by the Stevens County Auditor/Treasurer, who is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to deposit cash in financial institutions designated by the County Board. All funds of Stevens County are pooled. Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. Minnesota statutes require that all county deposits be covered by insurance, surety bond, or collateral, a requirement with which the County was in compliance at December 31, 2006.

Receivables

Receivables as of December 31, 2006, are as follows:

Accounts	\$	14,211
Due from other governments		<u>119,231</u>
Total	<u>\$</u>	<u>133,442</u>

Mid-State did not have any receivables scheduled to be collected beyond one year.

B. Liabilities

Deferred Revenue

Deferred revenue-unavailable of \$8,138 in connection with the Tobacco grant was earned but not available to liquidate liabilities of the current period and is reported in the General Fund.

Deferred revenue-unearned of \$27,429 in connection with the Bioterrorism and Family Planning grants was available but not earned in the current period and is reported in the General Fund and the governmental activities.

**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

3. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

The attorney for Mid-State estimates that potential claims against Mid-State resulting from litigation would not materially affect the financial statements.

B. Risk Management

Mid-State is exposed to various risks of loss related to torts and errors and omissions or natural disasters. To cover these risks, Mid-State is a member of the Minnesota Counties Insurance Trust (MCIT), a public entity risk pool, and carries commercial insurance. Mid-State retains the risk for the deductible portions of its 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 that exceeded insurance coverage for the past three years.

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**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006**

INTERNAL CONTROL OVER FINANCIAL REPORTING

ITEM ARISING THIS YEAR

06-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of Mid-State Community Health Services and its staffing limits the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements. Mid-State Community Health Services has established controls and procedures for the recording, processing, and summarizing of its accounting data used in the preparation of their financial statements.

Management has requested that we prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of Mid-State Community Health Services. This decision was based on the availability of Mid-State Community Health Services' staff and the cost benefit of using our expertise.

During our audit, we identified material adjustments in receivables, grant revenues and expenditures, and deferred revenues. Receivables and other related administrative revenue, were increased by \$14,211 for receivables related to the administrative portion of applicable grants. These receivables were not coded as receivables in the IFS system. For the Public Health Preparedness grant, \$15,968 of funds received in 2006 were unspent at year-end and, therefore, a deferred revenue-unearned was recognized for the

unspent portion. For the Family Planning grant, Otter Tail County's portion of the grant revenues and expenditures were eliminated because Otter Tail County is not a member of Mid-State Community Health Services.

Proposed audit adjustments were reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

We recommend the Mid-State Community Health Services Board be mindful that limited staffing causes inherent risks in safeguarding the agency's assets and the proper reporting of its financial activity. We recommend Mid-State Community Health Services establish internal procedures to ensure that all adjustments necessary for proper presentation of the financial statements are known and calculated prior to the annual audit.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Community Health Board
Mid-State Community Health Services

We have audited the financial statements of the governmental activities and the General Fund of Mid-State Community Health Services as of and for the year ended December 31, 2006, and have issued our report thereon dated April 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mid-State Community Health Services' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Community Health Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Community Health Services' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Community Health Services' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted

accounting principles such that there is more than a remote likelihood that a misstatement of the Community Health Services' financial statements that is more than inconsequential will not be prevented or detected by the Community Health Services' internal control over financial reporting. We considered the deficiency described in the accompanying Schedule of Findings and Recommendations as item 06-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Mid-State Community Health Services' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

Minnesota Legal Compliance

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 Mid-State Community Health Services did not do any contracting in 2006 and has no debt.

The results of our tests indicate that, for the items tested, Mid-State Community Health Services complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Mid-State Community Health Board, management, and others within Mid-State Community Health Services and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 10, 2008