

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA

YEARS ENDED DECEMBER 31, 2005 AND 2006

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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**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

Years Ended December 31, 2005 and 2006



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

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**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

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**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2006

	<u>Position</u>	<u>County</u>	<u>Term Expires</u>
Community Health Board			
Karen Ahmann	Chair	Mahnomen	2007
Sue Klabo	Member	Mahnomen	2007
Charles Pazdernik	Member	Mahnomen	2007
Steven Bommersbach	Vice Chair	Norman	2007
Warren Olson	Secretary	Norman	2007
Eldon Hetland	Member	Norman	2007
RN/PHN Director			
Jamie Hennen			Indefinite

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REBECCA OTTO
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INDEPENDENT AUDITOR'S REPORT

Norman-Mahnomen Community Health Board
Norman-Mahnomen Public Health

We have audited the accompanying basic financial statements of Norman-Mahnomen Public Health as of and for the years ended December 31, 2005 and 2006, as listed in the table of contents. These financial statements are the responsibility of Norman-Mahnomen 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 Norman-Mahnomen Public Health at December 31, 2005 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 6 to the financial statements, Norman-Mahnomen Public Health is the entity remaining after Becker County's withdrawal from the Multi-County Board of Health as of January 1, 2005. The final distribution of funds to Becker County is reported as an extraordinary item in the 2005 financial statements.

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

November 21, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005 AND 2006
(Unaudited)**

The Management's Discussion and Analysis for Norman-Mahnomen Public Health provides an overview of the agency's financial activities for the fiscal years ended December 31, 2005 and 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 Norman-Mahnomen Public Health's financial statements.

The Norman-Mahnomen Community Health Board is a joint powers enterprise operation of Mahnomen and Norman Counties doing business as Norman-Mahnomen Public Health. The Norman-Mahnomen Community Health Board is the Community Health Services Agency and, as such, is responsible for providing public health services to the residents of Mahnomen and Norman Counties. Offices are located in Ada and Mahnomen. Administrative services are provided through the Ada office.

Norman-Mahnomen Public Health is considered a distinct and separate entity from either of the two counties, and financial accountability lies with the Norman-Mahnomen Community Health Board and its designated staff. The agency is audited as a standalone subunit of local government.

Norman-Mahnomen Public Health was a part of Multi-County Nursing Service until Becker County withdrew from the Joint Powers Agreement as of January 1, 2005. The Community Health Services Unit of Becker County Human Services Department began to provide public health services in Becker County under the direction of the Becker County Commissioners. Norman and Mahnomen Counties remained as a Joint Powers enterprise organization changing the name to Norman-Mahnomen Public Health as of January 1, 2005. The Joint Powers Agreement was amended to reflect the name changes.

These financial statements reflect the first two years of the Norman-Mahnomen Community Health Board. Year 2005 reflects the continued sharing of administrative expenses between Norman, Mahnomen, and Becker Counties for a four-month transition period.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements of this agency. Norman-Mahnomen Public Health's basic financial statements consist of two parts: the financial statements and the notes to the financial statements. The Management's Discussion and Analysis (this section) is required to accompany the basic financial statements as required supplementary information.

The financial statements present different views of the agency's financial activities and consist of the following:

- The statements of net assets compare the assets and liabilities to give an overall view of the financial health of Norman-Mahnomen Public Health.
- The statements of revenues, expenses, and changes in net assets provide information on an aggregate view of the agency's finances. All of each year's revenues and expenses are taken into account regardless of when the cash is received or paid.
- The statements of cash flows provide sources and uses of cash for Norman-Mahnomen Public Health.

FINANCIAL ANALYSIS

	Net Assets			
	2006	2005	Increase/ (Decrease)	Percent (%) Change
Assets				
Current and other assets	\$ 227,109	\$ 122,773	\$ 104,336	84.98
Capital assets	<u>21,675</u>	<u>3,551</u>	<u>18,124</u>	510.39
Total Assets	<u>\$ 248,784</u>	<u>\$ 126,324</u>	<u>\$ 122,460</u>	96.94
Liabilities				
Current liabilities	\$ 34,089	\$ 42,057	\$ (7,968)	(18.95)
Long-term/noncurrent liabilities	<u>16,508</u>	<u>3,016</u>	<u>13,492</u>	447.35
Total Liabilities	<u>\$ 50,597</u>	<u>\$ 45,073</u>	<u>\$ 5,524</u>	12.26
Net Assets				
Invested in capital assets, net of debt	\$ 5,223	\$ 3,226	\$ 1,997	61.90
Unrestricted	<u>192,964</u>	<u>78,025</u>	<u>114,939</u>	147.31
Total Net Assets	<u>\$ 198,187</u>	<u>\$ 81,251</u>	<u>\$ 116,936</u>	143.92

	2005	2004	Increase/ (Decrease)	Percent (%) Change
Assets				
Current assets	\$ 122,773	\$ 510,913	\$ (388,140)	(75.97)
Capital assets	3,551	2,354	1,197	50.85
Total Assets	\$ 126,324	\$ 513,267	\$ (386,943)	(75.39)
Liabilities				
Current liabilities	\$ 42,057	\$ 36,455	\$ 5,602	15.37
Long-term/noncurrent liabilities	3,016	6,984	(3,968)	56.82
Total Liabilities	\$ 45,073	\$ 43,439	\$ 1,634	3.76
Net Assets				
Invested in capital assets, net of debt	\$ 3,226	\$ 835	\$ 2,391	286.35
Unrestricted	78,025	468,993	(390,968)	(83.36)
Total Net Assets	\$ 81,251	\$ 469,828	\$ (388,577)	(82.71)

During 2004, Multi-County was preparing for Becker County's withdrawal effective January 1, 2005. The 83-percent change in net assets from 2004 to 2005 reflects the transition from a three-county agency to a two-county agency. Multi-County Nursing Service comprised three counties including Norman, Mahanomen, and Becker. Becker County contained 67.5 percent of the total community population.

In 2006, Norman County and Mahanomen County increased the property tax revenue to the Norman-Mahanomen Community Health Board by 60 percent. Charges for service increased in 2006 with the addition of the MSHO program.

The reduction in personnel operating expense from 2005 to 2006 is reflective of a retiring employee not being replaced. In addition, during the first four months of 2005, Multi-County Nursing Service administrative staff was retained to close out the Nursing Service and assist in the transition to Norman-Mahanomen Public Health. Those expenses are reflected in the professional and administrative expenses.

Grant funds allowed for the purchase of emergency preparedness community supplies in 2006, thus, the increase in supplies operating expense.

Operating expenses for equipment rental/repair declined 48 percent due to a change from an operating lease to a capital lease in 2006 and the result of phone and computer wiring changes needed to set Norman-Mahanomen Public Health as the business office in 2005.

Changes in Net Assets

	2006	2005	Increase/ (Decrease)	Percent (%) Change
Operating revenues				
Charges for services	\$ 175,906	\$ 133,333	\$ 42,573	31.93
Screenings	68,612	42,404	26,208	61.81
Health promotions and clinics	4,925	4,875	50	1.03
School services	42,150	37,721	4,429	11.74
Miscellaneous	15,502	24,542	(9,040)	(36.83)
Nonoperating revenues				
Property taxes	153,614	96,009	57,605	60.00
Intergovernmental	210,721	177,166	33,555	18.94
Interest income	-	595	(595)	(100.00)
Total Revenues	\$ 671,430	\$ 516,645	\$ 154,785	29.96
Operating expenses				
Personnel	\$ 434,423	\$ 499,238	\$ (64,815)	(12.98)
Professional services	11,536	13,102	(1,566)	(11.95)
Administrative	34,315	36,476	(2,161)	(5.92)
Travel	18,222	17,951	271	1.51
Supplies	12,803	5,804	6,999	120.59
Equipment rental/repair	10,820	20,914	(10,094)	(48.26)
Direct cost	28,048	15,598	12,450	79.82
Depreciation	3,534	2,628	906	34.47
Nonoperating expenses				
Interest expense	793	135	658	487.41
Loss on disposal of capital assets	-	237	(237)	(100.00)
Total Expenses	\$ 554,494	\$ 612,083	\$ (57,589)	(9.41)
Extraordinary Item				
Member county withdrawal	\$ -	\$ (293,139)	\$ 293,139	(100.00)
Increase (Decrease) in Net Assets	\$ 116,936	\$ (388,577)	\$ 505,513	130.09

	2005	2004	Increase/ (Decrease)	Percent (%) Change
Operating revenues				
Charges for services	\$ 133,333	\$ 344,788	\$ (211,455)	(61.33)
Screenings	42,404	157,421	(115,017)	(73.06)
Health promotions and clinics	4,875	18,943	(14,068)	(74.26)
School services	37,721	73,726	(36,005)	(48.84)
In-kind	-	33,934	(33,934)	(100.00)
Miscellaneous	24,542	51,038	(26,496)	(51.91)
Nonoperating revenues				
Property taxes	96,009	308,276	(212,267)	(68.86)
Intergovernmental	177,166	589,540	(412,374)	(69.95)
Project income	-	1,090	(1,090)	(100.00)
Interest income	595	-	595	100.00
Total Revenues	\$ 516,645	\$ 1,578,756	\$ (1,062,111)	(67.28)

	2005	2004	Increase/ (Decrease)	Percent (%) Change
Operating expenses				
Personnel	\$ 499,238	\$ 1,223,032	\$ (723,794)	(59.18)
Professional services	13,102	16,873	(3,771)	(22.35)
Administrative	36,476	59,338	(22,862)	(38.53)
Travel	17,951	29,456	(11,505)	(39.06)
Supplies	5,804	91,725	(85,921)	(93.67)
Equipment rental/repair	20,914	78,576	(57,662)	(73.38)
In-kind	-	33,934	(33,934)	(100.00)
Direct cost	15,598	55,307	(39,709)	(71.80)
Miscellaneous	-	439	(439)	(100.00)
Depreciation	2,628	4,884	(2,256)	(46.19)
Nonoperating expenses				
Interest expense	135	-	135	100.00
Loss on disposal of capital assets	237	150	87	58.00
Total Expenses	\$ 612,083	\$ 1,593,714	\$ (981,631)	(61.59)
Extraordinary item				
Member county withdrawal	\$ (293,139)	\$ -	\$ (293,139)	(100.00)
Increase (Decrease) in Net Assets	\$ (388,577)	\$ (14,958)	\$ (373,619)	(2,497.79)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital Assets at Year-End (Net of Depreciation)				
	2006	2005	Increase/ (Decrease)	Percent (%) Change
Office equipment	\$ 21,675	\$ 3,551	\$ 18,124	510.39
	2005	2004	Increase/ (Decrease)	Percent (%) Change
Office equipment	\$ 3,551	\$ 2,354	\$ 1,197	50.85

Debt

In July 2006, Norman-Mahnomen Public Health entered into a copier/printer five-year lease agreement with MARCO. MARCO bought out the remaining operating lease with Advanced Business Methods for \$732. The balance as of December 31, 2006, is \$16,452.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Capital leases payable			
2001 Norman County office copier	\$ -	\$ 325	\$ 1,519
2006 copier/printer	<u>16,452</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 16,452</u>	<u>\$ 325</u>	<u>\$ 1,519</u>

FUTURE EVENTS

Effective January 1, 2007, the Norman-Mahnomen Community Health Board hired a new outside accountant to maintain the agency general ledger.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designated to provide our citizens, taxpayers, customers, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact:

Jamie Hennen
Norman-Mahnomen Community Health Services Administrator
16 East 3rd Avenue North, Room 107
Ada, Minnesota 56510
218-784-5425
jamie.hennen@co.mahnomen.mn.us

BASIC FINANCIAL STATEMENTS

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**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

EXHIBIT 1

**STATEMENTS OF NET ASSETS
DECEMBER 31, 2005 AND 2006**

	2005	2006
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 77,016	\$ 182,009
Petty cash and change funds	100	100
Accounts receivable (net)	17,482	18,867
Grants receivable	12,403	20,448
Contracts receivable	12,747	2,358
Prepaid items	3,025	3,327
Total current assets	\$ 122,773	\$ 227,109
Noncurrent assets		
Depreciable capital assets (net)	3,551	21,675
Total Assets	\$ 126,324	\$ 248,784
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 6,402	\$ 3,686
Salaries payable	1,804	589
Payroll-related liabilities	17,904	7,968
Compensated absences payable	10,947	10,502
Due to other governments	742	201
Unearned revenue	3,933	8,222
Capital leases payable	325	2,921
Total current liabilities	\$ 42,057	\$ 34,089
Noncurrent liabilities		
Compensated absences payable	\$ 3,016	\$ 2,977
Capital leases payable	-	13,531
Total noncurrent liabilities	\$ 3,016	\$ 16,508
Total Liabilities	\$ 45,073	\$ 50,597
<u>Net Assets</u>		
Invested in capital assets, net of related debt	\$ 3,226	\$ 5,223
Unrestricted	78,025	192,964
Total Net Assets	\$ 81,251	\$ 198,187

**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

EXHIBIT 2

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2006**

	2005	2006
Operating Revenues		
Charges for services	\$ 133,333	\$ 175,906
Screenings	42,404	68,612
Health promotion and clinics	4,875	4,925
School services	37,721	42,150
Miscellaneous	24,542	15,502
	\$ 242,875	\$ 307,095
Operating Expenses		
Personnel	\$ 499,238	\$ 434,423
Professional services	13,102	11,536
Administrative	36,476	34,315
Travel	17,951	18,222
Materials and supplies	5,804	12,803
Equipment rental and repair	20,914	10,820
Direct costs	15,598	28,048
Depreciation	2,628	3,534
	\$ 611,711	\$ 553,701
Operating Income (Loss)	\$ (368,836)	\$ (246,606)
Nonoperating Revenues (Expenses)		
Property taxes	\$ 96,009	\$ 153,614
Intergovernmental	177,166	210,721
Interest income	595	-
Interest expense	(135)	(793)
Gain (loss) on disposal of capital assets	(237)	-
	\$ 273,398	\$ 363,542
Income (Loss) Before Extraordinary Item	\$ (95,438)	\$ 116,936
Extraordinary Item		
Member county withdrawal	(293,139)	-
	\$ (388,577)	\$ 116,936
Increase (Decrease) in Net Assets	\$ (388,577)	\$ 116,936
Net Assets - January 1	469,828	81,251
Net Assets - December 31	\$ 81,251	\$ 198,187

**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

EXHIBIT 3

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2006
Increase (Decrease) in Cash and Cash Equivalents**

	2005	2006
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 345,077	\$ 316,099
Payments to suppliers	(102,256)	(129,239)
Payments to employees	(506,505)	(436,122)
Net cash provided by (used in) operating activities	\$ (263,684)	\$ (249,262)
Cash Flows from Noncapital Financing Activities		
Property taxes	\$ 96,009	\$ 153,614
Intergovernmental	221,551	206,965
Net cash provided by (used in) noncapital financing activities	\$ 317,560	\$ 360,579
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of capital lease	\$ -	\$ 17,578
Lease payments	(1,194)	(1,451)
Interest paid on long-term debt	(135)	(793)
Purchases of capital assets	(4,062)	(21,658)
Member county withdrawal	(293,139)	-
Net cash provided by (used in) capital and related financing activities	\$ (298,530)	\$ (6,324)
Cash Flows from Investing Activities		
Investment earnings received	\$ 595	\$ -
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (244,059)	\$ 104,993
Cash and Cash Equivalents at January 1	321,175	77,116
Cash and Cash Equivalents at December 31	\$ 77,116	\$ 182,109
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ (368,836)	\$ (246,606)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	\$ 2,628	\$ 3,534
(Increase) decrease in accounts receivable	67,566	(1,385)
(Increase) decrease in contracts receivable	34,636	10,389
(Increase) decrease in prepaid items	1,427	(302)
Increase (decrease) in accounts payable	3,321	(2,716)
Increase (decrease) in salaries payable	(1,718)	(1,215)
Increase (decrease) in payroll-related liabilities	9,247	(9,936)
Increase (decrease) in compensated absences payable	(5,549)	(484)
Increase (decrease) in due to other governments	(6,406)	(541)
Total adjustments	\$ 105,152	\$ (2,656)
Net Cash Provided by (Used in) Operating Activities	\$ (263,684)	\$ (249,262)

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**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2006**

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

Norman-Mahnomen Public Health was established pursuant to Minn. Stat. ch. 145A and a joint powers agreement effective July 1, 1977. This joint powers agreement was amended effective January 1, 2005, for the withdrawal of Becker County. The Norman-Mahnomen Community Health Board consists of six members, three each from Norman and Mahnomen Counties. The Board includes one Commissioner from each county, and the remaining members represent people in the community or consumers of health services.

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

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

Joint Ventures

Norman-Mahnomen Public Health participates in two joint ventures described in Note 5.B.

**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The accounts of Norman-Mahnomen Public Health are organized as an enterprise fund. The fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

C. Measurement Focus and Basis of Accounting

Norman-Mahnomen 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. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue 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 Norman-Mahnomen Public Health's policy to use restricted resources first and then unrestricted resources as needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

Norman-Mahnomen Public Health has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Receivables and Payables

All receivables are shown net of an allowance for uncollectibles.

**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the statements.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements. Capital assets are defined by Norman-Mahnomen Public Health as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, Norman-Mahnomen Public Health did not have any capitalized interest.

Property, plant, and equipment of Norman-Mahnomen Public Health are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Furniture, equipment, and vehicles	2 - 10

**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred.

6. Operating Revenues and Expenses

Norman-Mahnomen Public Health's statements of revenues, expenses, and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing services. Nonexchange revenues, including member county appropriations, interest income, grants, and contributions received for purposes other than for capital asset acquisition, are reported as nonoperating gains (losses). Operating expenses are all expenses incurred to provide services.

7. Use of Estimates

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

**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

2. Detailed Notes

A. Assets

1. Deposits and Investments

Norman-Mahnomen Public Health's total cash and cash equivalents are reported as follows:

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 182,009	\$ 77,016
Petty cash and change funds	<u>100</u>	<u>100</u>
Total Cash and Cash Equivalents	<u>\$ 182,109</u>	<u>\$ 77,116</u>

Minn. Stat. §§ 118A.02 and 118A.04 authorize Norman-Mahnomen Public Health to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, Norman-Mahnomen Public Health's deposits may not be returned to it. Norman-Mahnomen Public Health does not have a deposit policy for custodial credit risk. As of December 31, 2005 and 2006, its deposits were not exposed to custodial credit risk.

**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

2. Detailed Notes

A. Assets (Continued)

2. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to Norman-Mahnomen Public Health:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

During the years ended December 31, 2005 and 2006, Norman-Mahnomen Public Health had no investments.

**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

2. Detailed Notes

A. Assets (Continued)

3. Receivables

Receivables as of December 31, 2005, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts	\$ 17,482	\$ -
Grants	12,403	-
Contracts	12,747	-
Total	\$ 42,632	\$ -

Receivables as of December 31, 2006, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts	\$ 18,867	\$ -
Grants	20,448	-
Contracts	2,358	-
Total	\$ 41,673	\$ -

**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

2. Detailed Notes

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated Machinery, furniture, and equipment	\$ 30,843	\$ 4,062	\$ 22,616	\$ 12,289
Less: accumulated depreciation for Machinery, furniture, and equipment	<u>28,489</u>	<u>2,628</u>	<u>22,379</u>	<u>8,738</u>
Total Capital Assets Depreciated, Net	<u>\$ 2,354</u>	<u>\$ 1,434</u>	<u>\$ 237</u>	<u>\$ 3,551</u>

Depreciation expense for the year was \$2,628.

Capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated Machinery, furniture, and equipment	\$ 12,289	\$ 21,658	\$ -	\$ 33,947
Less: accumulated depreciation for Machinery, furniture, and equipment	<u>8,738</u>	<u>3,534</u>	<u>-</u>	<u>12,272</u>
Total Capital Assets Depreciated, Net	<u>\$ 3,551</u>	<u>\$ 18,124</u>	<u>\$ -</u>	<u>\$ 21,675</u>

Depreciation expense for the year was \$3,534.

**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

2. Detailed Notes (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

	Total Payables
Accounts	\$ 6,402
Salaries	1,804
Payroll-related	17,904
Due to other governments	742
Unearned revenue	3,933
Total Payables	\$ 30,785

Payables at December 31, 2006, were as follows:

	Total Payables
Accounts	\$ 3,686
Salaries	589
Payroll-related	7,968
Due to other governments	201
Unearned revenue	8,222
Total Payables	\$ 20,666

2. Capital Leases

Norman-Mahnomen Public Health has entered into a lease agreement as lessee for financing the acquisition of certain equipment. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The capital lease consists of the following at December 31, 2005:

Lease	Maturity	Installment	Payment Amount	Original	Balance
2001 copier	2006	Monthly	\$ 111	\$ 4,793	\$ 325

**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

2. Detailed Notes

B. Liabilities

2. Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2005, were as follows:

Year Ending December 31	Governmental Activities
2006	\$ 332
Less: amount representing interest	(7)
Present Value of Minimum Lease Payments	\$ 325

The capital lease consists of the following at December 31, 2006:

Lease	Maturity	Installment	Payment Amount	Original	Balance
2006 copier/printer	2011	Monthly	\$ 382	\$ 17,578	\$ 16,452

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2006, were as follows:

Year Ending December 31	Governmental Activities
2007	\$ 4,586
2008	4,586
2009	4,586
2010	4,586
2011	2,675
Total minimum lease payments	\$ 21,019
Less: amount representing interest	(4,567)
Present Value of Minimum Lease Payments	\$ 16,452

**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

2. Detailed Notes

B. Liabilities (Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for Capital leases	\$ 1,519	\$ -	\$ 1,194	\$ 325	\$ 325
Compensated absences	19,512	44,546	50,095	13,963	10,947
Long-Term Liabilities	<u>\$ 21,031</u>	<u>\$ 44,546</u>	<u>\$ 51,289</u>	<u>\$ 14,288</u>	<u>\$ 11,272</u>

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for Capital leases	\$ 325	\$ 17,578	\$ 1,451	\$ 16,452	\$ 2,921
Compensated absences	13,963	42,663	43,147	13,479	10,502
Long-Term Liabilities	<u>\$ 14,288</u>	<u>\$ 60,241</u>	<u>\$ 44,598</u>	<u>\$ 29,931</u>	<u>\$ 13,423</u>

3. Employee Retirement Systems and Pension Plans

A. Plan Description

All full-time and certain part-time employees of Norman-Mahnomen 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.

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.

**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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 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.

**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

3. Employee Retirement Systems and 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. Norman-Mahnomen Public Health 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 were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005, and to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Norman-Mahnomen Public Health is required to contribute the following percentages of annual covered payroll:

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Public Employees Retirement Fund			
Basic Plan members	11.78%	11.78%	11.78%
Coordinated Plan members	5.53	6.00	6.25

Norman-Mahnomen Public Health's contributions for the years ending December 31, 2006, 2005, and 2004, were \$21,197, \$21,154, and \$51,510, respectively, equal to the contractually required contributions for each year as set by state statute.

4. Risk Management

Norman-Mahnomen Public Health 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 for which it carries commercial insurance. Norman-Mahnomen Public Health has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). It is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$760,000 and

**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

4. Risk Management (Continued)

\$390,000 per claim in 2005 and 2006, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess Norman-Mahnomen Public Health in a method and amount to be determined by MCIT.

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

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although Norman-Mahnomen Public Health expects such amounts, if any, to be immaterial.

B. Joint Ventures

Mahnomen County Interagency Collaborative

The Mahnomen County Interagency Collaborative (MCIC) was established in 1998, pursuant to Minn. Stat. § 124D.23, between Mahnomen County Human Services, the Mahnomen County Sheriff's Department, Independent School Districts Nos. 432 and 435, Minnesota Department of Corrections, Norman-Mahnomen Public Health, Northwestern Mental Health Center, Stellher Human Services, the University of Minnesota Mahnomen County Extension Office, Mahnomen Health Center, MAHUBE Community Council, White Earth Human Services, and White Earth Mental Health. Mahnomen County Human Services is the acting fiscal agent of the MCIC. The purpose of the MCIC is to provide healthier communities and families and to reduce the number of out-of-home placements.

The management of the MCIC is vested in the interagency agreements. Each participating agency is granted one vote upon the receipt of a resolution from its governing board, except for Mahnomen County, which is granted two votes.

**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Mahnomen County Interagency Collaborative (Continued)

In the event of withdrawal from the MCIC, the withdrawing party shall give a 30-day notice. Should the MCIC cease to exist, all property, real and personal, held by the MCIC at the time of termination shall be distributed by resolution of the Board in accordance with law and in a manner to best accomplish the continuing purposes of the MCIC.

Financing is provided by state and federal grants. Mahnomen County Human Services is the fiscal agent for the MCIC. During 2005 and 2006, Norman-Mahnomen Public Health did not contribute any funds to the MCIC.

The Children's Collaborative (Serving Norman County Families)

The Children's Collaborative (Serving Norman County Families) was established in 1999 under the authority of Minn. Stat. § 124D.23. The Collaborative includes Norman County Social Services, Ada-Borup Public Schools, Norman County East Public Schools, Norman County West Public Schools, Norman-Mahnomen Public Health, Tri-County Community Corrections, Northwestern Mental Health Center, and Tri-Valley Opportunity Council, Inc. The purpose of the Collaborative is to provide coordinated services and to commit resources to an integrated fund.

Control of the Collaborative is vested in a Board of Directors, which is comprised of one member appointed by each member party.

In the event of withdrawal from the Collaborative, the withdrawing party shall give a 180-day notice. The withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to a refund of contributions made to the integrated fund or other fees paid to operate the Collaborative. The Board shall continue to exist if the Collaborative is terminated for the limited purposes of discharging the Collaborative's debt and liabilities, settling its affairs, and disposing of integrated fund assets, if any.

Financing is provided by state and federal grants and contributions from its member parties. Norman County, in an agent capacity, reports the cash transactions of the Collaborative as an agency fund on its financial statements. During 2005 and 2006, Norman-Mahnomen Public Health did not contribute to the Collaborative.

**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items (Continued)

C. Operating Budget

Budget to actual revenues and expenses for the year ended December 31, 2005, were as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues	\$ 337,478	\$ 242,875	\$ (94,603)
Operating Expenses	<u>629,119</u>	<u>611,711</u>	<u>17,408</u>
Operating Income (Loss)	\$ (291,641)	\$ (368,836)	\$ (77,195)
Nonoperating Revenues (Expenses)	<u>291,641</u>	<u>273,398</u>	<u>(18,243)</u>
Net Income (Loss)	<u>\$ -</u>	<u>\$ (95,438)</u>	<u>\$ (95,438)</u>

Budget to actual revenues and expenses for the year ended December 31, 2006, were as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues	\$ 223,159	\$ 307,095	\$ 83,936
Operating Expenses	<u>582,158</u>	<u>553,701</u>	<u>28,457</u>
Operating Income (Loss)	\$ (358,999)	\$ (246,606)	\$ 112,393
Nonoperating Revenues (Expenses)	<u>358,999</u>	<u>363,542</u>	<u>4,543</u>
Net Income (Loss)	<u>\$ -</u>	<u>\$ 116,936</u>	<u>\$ 116,936</u>

6. Extraordinary Item - Withdrawal of Joint Powers Member

As of January 1, 2005, Becker County, who had been a member county of the agency, withdrew itself from the joint venture. Norman and Mahnomen Counties, as the remaining members, continued to operate the public health service. The financial statements representing activities of Norman-Mahnomen Public Health for the year ending December 31, 2005, present an extraordinary item for the distribution of funds to Becker County. This distribution was determined to be the remaining funds of the joint venture as of the close of the business day December 31, 2004. Consideration for accruals was given,

**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

6. Extraordinary Item (Continued)

and funds were divided among the members as set forth in the joint powers agreement. This distribution was determined to be both unusual in nature and infrequent in occurrence. In addition, it was determined not to be completely under management's control.

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**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMENDATIONS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2006**

I. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-1 Segregation of Duties

The limited number of office personnel prevents the segregation of accounting functions necessary to ensure adequate internal accounting control. This situation is not unusual in operations the size of Norman-Mahnomen Public Health, but the Board and Directors should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

Under the above conditions, the most effective system of control lies in the Board's and Director's knowledge of Public Health operations and periodic review of those operations.

Client's Response:

Norman-Mahnomen Community Health Board and management recognize the agency lacks staff needed for complete segregation of duties. As of January 1, 2007, the agency retained the services of an outside accounting firm for payroll functions and maintenance preparation of the general ledger.

ITEMS ARISING THIS YEAR

06-1 Preparation of Financial Statements

Norman-Mahnomen Public Health is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the Public Health's management. Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

As is the case with many small entities, Norman-Mahnomen Public Health has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the Public Health's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by the Public Health's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the government lacks internal control over the preparation of financial statements in accordance with GAAP.

We recommend Norman-Mahnomen Public Health obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If Norman-Mahnomen Public Health still intends to have staff from the Office of the State Auditor assist in preparation then, at a minimum, it must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the Public Health's financial statements, including notes. As an alternative, the Public Health could consider extending its contract with its outside consultant to assist in preparing its basic financial statements.

Client's Response:

The agency will consider extending the outside accounting contract to assist in the preparation of financial statements including the notes to the financial statements.

06-2 Audit Adjustments

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 of the financial statements on a timely basis. Statement on Auditing Standards (SAS) No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal control even if management subsequently corrects the misstatement.

During our audit, we identified several adjustments needed to materially correct the general ledger balances provided for 2005 and 2006. Adjustments were needed for 2005 to reclassify various postings, adjust the 2005 beginning net assets to agree with the 2004 ending net assets, include the transactions relating to the transition account, remove capital assets included in the general ledger but previously discarded, adjust compensated absences, and show an extraordinary item for the payment made to Becker County for

withdrawing from the Joint Powers. Adjustments were made for 2006 to adjust the beginning net assets to agree with the audited ending net assets for 2005, reclassify revenues, and adjust for various year-end accruals including an adjustment for additional receivables, an adjustment to show compensated absences, and an adjustment for capital leases. 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 Public Health establish internal procedures for monitoring entries to the general ledger to ensure they are posted to the proper accounts for the correct amounts. The review should be done by someone who is familiar with the operations of the Public Health and has knowledge of the types of transactions required.

Client's Response:

As of January 1, 2007, Norman-Mahnomen Public Health entered into a contract with a new outside accounting firm. Monthly financial statements and general ledgers are provided for board and management review, thus improving communication and detection of financial statement misstatements on a timely basis.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Uninsured Deposits 04-1

On December 31, 2004, and continuing through the transition period during 2005, the Nursing Service's deposits exceeded the depository insurance amount. Minn. Stat. § 118A.03 requires that a bond or collateral be obtained to cover deposits in excess of depository insurance.

Resolution

After the transition period, and distribution to Becker County of its share, all deposits of Norman-Mahnomen Public Health have been fully covered.

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

06-3 Timely Posting of General Ledger

Effective January 1, 2005, Becker County withdrew from the Multi-County Nursing Service. The organization was renamed Norman-Mahnomen Public Health, and the fiscal responsibilities moved from Detroit Lakes to Ada. Norman-Mahnomen Public Health hired an outside accountant to be responsible for the accounting functions of Norman-Mahnomen Public Health, including maintaining its general ledger.

In November 2006, we requested records necessary to complete the 2005 audit of Norman-Mahnomen Public Health, but were told that the general ledger had not been posted for 2005 or 2006. With a pending delay in receiving a general ledger for 2005 and a planned leave by the Public Health Director, it was decided to delay the 2005 audit and conduct a two-year audit including 2005 and 2006. A preliminary general ledger for 2005 was provided on February 3, 2007. Due to tax season and other delays by the outside accountant, some information was not obtained until July 18, 2007. These delays caused significant scheduling problems and overruns for the 2005 and 2006 audit.

In a move to correct the problem, the Norman-Mahnomen Community Health Board hired a new outside accountant effective January 1, 2007, to maintain its general ledger.

We recommend the Norman-Mahnomen Community Health Board establish internal procedures for monitoring the work of its new outside accountant, as needed, to ensure entries to the general ledger are posted timely.

Client's Response:

Norman-Mahnomen Public Health entered into a contract with an accounting firm to provide monthly financial statements to ensure general ledger entries are posted in a timely manner.

C. 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 Norman-Mahnomen Community 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 Norman-Mahnomen Community 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 Norman-Mahnomen Community Health Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Norman-Mahnomen Community Health 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 Norman-Mahnomen Community Health Board will have to decide whether to hire an actuary.

If applicable for Norman-Mahnomen Public Health, GASB Statements 43 and 45 would be implemented for the years ending December 31, 2008 and 2009, respectively.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Norman-Mahnomen Community Health Board
Norman-Mahnomen Public Health

We have audited the basic financial statements of Norman-Mahnomen Public Health as of and for the years ended December 31, 2005 and 2006, and have issued our report thereon dated November 21, 2007. 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 Norman-Mahnomen Public Health's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Public Health's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Public Health's 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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

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 Norman-Mahnomen Public Health's 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 Public Health's financial statements that is more than inconsequential will not be prevented or detected by the Public Health's internal control over financial reporting. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 97-1, 06-1, and 06-2 to be significant deficiencies 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 Norman-Mahnomen Public Health's internal control over financial reporting.

Our consideration of the 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 the 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, of the significant deficiencies described above, we consider items 06-1 and 06-2 to be material weaknesses.

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.

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

Also included in the Schedule of Findings and Recommendations is a management practices comment and an other item for consideration. We believe these recommendations and information to be of benefit to Norman-Mahnomen Public Health, and they are reported for that purpose.

Norman-Mahnomen Public Health's written responses to the significant deficiencies, material weaknesses, and management practices findings identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Norman-Mahnomen Community Health Board, management, and others within Norman-Mahnomen Public Health 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

November 21, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR