

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA

YEAR ENDED DECEMBER 31, 2009

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

Year Ended December 31, 2009



**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, 2009

	<u>Position</u>	<u>County</u>	<u>Term Expires</u>
Community Health Board			
Karen Ahmann	Vice Chair	Mahnomen	2010
Sue Klabo	Member	Mahnomen	2010
Charles Pazdernik	Member	Mahnomen	2010
Steven Bommersbach	Chair	Norman	2010
Eldon Hetland	Secretary	Norman	2010
Warren Olson	Member	Norman	2010
RN/PHN Director			
Jamie Hennen			Indefinite

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REBECCA OTTO
STATE AUDITOR

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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 year ended December 31, 2009, 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, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) 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

November 19, 2010

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009
(Unaudited)**

The Management's Discussion and Analysis for Norman-Mahnomen Public Health provides an overview of the agency's financial activities for the fiscal year ended December 31, 2009. 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 stand-alone 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. Norman and Mahnomen Counties remained as a Joint Powers enterprise organization, changing the name to Norman-Mahnomen Public Health as of January 1, 2005. Under current rules, the population of the two counties is too small to create a stand-alone Public Health Agency but, because the agency already existed, it was allowed to keep the stand-alone status.

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 statement of net assets compares the assets and liabilities to give an overall view of the financial health of Norman-Mahnomen Public Health.
- The statement of revenues, expenses, and changes in net assets provides 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 statement of cash flows provides sources and uses of cash for Norman-Mahnomen Public Health.

FINANCIAL ANALYSIS

	Net Assets			
	2009	2008	Increase/ (Decrease)	Percent (%) Change
Assets				
Current and other assets	\$ 296,536	\$ 294,331	\$ 2,205	0.75
Capital assets	16,665	17,839	(1,174)	(6.58)
Total Assets	\$ 313,201	\$ 312,170	\$ 1,031	0.33
Liabilities				
Current liabilities	\$ 34,148	\$ 33,154	\$ 994	3.00
Long-term/noncurrent liabilities	6,834	10,699	(3,865)	(36.12)
Total Liabilities	\$ 40,982	\$ 43,853	\$ (2,871)	(6.55)
Net Assets				
Invested in capital assets, net of debt	\$ 10,028	\$ 7,566	\$ 2,462	32.54
Unrestricted	262,191	260,751	1,440	0.55
Total Net Assets	\$ 272,219	\$ 268,317	\$ 3,902	1.45

Changes in Net Assets

	2009	2008	Increase/ (Decrease)	Percent (%) Change
Operating revenues				
Charges for services	\$ 114,232	\$ 121,188	\$ (6,956)	(5.74)
Screenings	26,842	36,838	(9,996)	(27.14)
Health promotions and clinics	4,621	17,738	(13,117)	(73.95)
School services	30,770	29,201	1,569	5.37
Miscellaneous	11,655	15,523	(3,868)	(24.92)
Nonoperating revenues				
Property taxes	153,614	153,614	-	-
Intergovernmental	329,469	285,539	43,930	15.38
Interest income	2,973	3,056	(83)	(2.72)
Total Revenues	\$ 674,176	\$ 662,697	\$ 11,479	1.73
Operating expenses				
Personnel	\$ 555,489	\$ 514,337	\$ 41,152	8.00
Professional services	9,715	16,849	(7,134)	(42.34)
Administrative	31,318	32,978	(1,660)	(5.03)
Travel	14,250	15,894	(1,644)	(10.34)
Supplies	11,142	9,805	1,337	13.64
Equipment rental/repair	3,111	6,268	(3,157)	(50.37)
Rent	16,350	15,750	600	3.81
Direct cost	19,876	15,057	4,819	32.01
Depreciation	8,073	7,812	261	3.34
Nonoperating expenses				
Interest expense	950	1,327	(377)	(28.41)
Total Expenses	\$ 670,274	\$ 636,077	\$ 34,197	5.38
Increase (Decrease) in Net Assets	\$ 3,902	\$ 26,620	\$ (22,718)	(85.34)

In 2009, both the Center for Human Environment and Valley View Manor opted to go without renewing their contracts with Norman-Mahnomen Public Health for nursing services. This decreased both Health Promotion and Clinic revenue in 2009.

Effective July 1, 2009, all in-home Secure Blue Case Management in Norman County is now done by Norman County Social Services instead of Norman-Mahnomen Public Health. This reduced the case management charges for services by \$19,038. PCA assessments in the amount of \$18,188 (an increase of \$5,629 from 2008) were classified with the screenings in 2008 and with the charges for services in 2009, accounting for the decrease in the screenings.

In April 2009, a long-time Family Health Nurse resigned. This position was not replaced in 2009, accounting for the rest of the reduction in charges for services.

H1N1 pandemic influenza planning and activity funding began in 2009. This funding had a net impact on our emergency preparedness money of \$15,379.

Effective January 1, 2009, the Norman-Mahnomen Community Health Board increased administrative staff to do all of the accounting functions for the agency in house. This decreased professional services and increased personnel costs.

In July 2009, Norman-Mahnomen Public Health was awarded the State Health Improvement Project (SHIP) grant. A SHIP Coordinator was hired in September 2009. This increased both direct costs and personnel, along with increasing intergovernmental revenue.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

	Capital Assets at Year-End (Net of Depreciation)			Percent (%) Change
	2009	2008	Increase/ (Decrease)	
Office equipment	\$ 16,665	\$ 17,839	\$ (1,174)	(6.58)

Debt

	2009	2008
Capital leases payable 2006 copier/printer	\$ 6,637	\$ 10,273

FUTURE EVENTS

The SHIP grant continued in 2010 and will end June 30, 2011. Polk County Public Health is the fiscal host for this grant.

H1N1 activity changed the agency focus and staffing prioritization well into 2010. Public Health Emergency Response (PHER) funding from the federal government began in 2009 and continued into 2010 to support the H1N1 activities. In October 2009, the PHER I & II funding was received by Public Health for H1N1 activities. This funding continues until August 2010. In December 2009, the PHER III funding came out, and it also continues until August 2010. In April 2010, the PHER IV funding for Norman-Mahnomen Public Health was approved, and it also continues until August 2010. This will be reflected in the 2010 financial statements.

CONTACTING NORMAN-MAHNOMEN PUBLIC HEALTH'S FINANCIAL MANAGEMENT

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

Jamie Hennen
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BASIC FINANCIAL STATEMENTS

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

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2009**

Assets

Current assets

Cash and cash equivalents	\$ 135,603
Petty cash and change funds	100
Certificate of deposit	100,000
Accounts receivable - net	19,246
Grants receivable	18,692
Contracts receivable	22,895

Total current assets **\$ 296,536**

Noncurrent assets

Depreciable capital assets - net	16,665
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Total Assets **\$ 313,201**

Liabilities

Current liabilities

Accounts payable	\$ 3,505
Salaries payable	734
Compensated absences payable	18,142
Due to other governments	7,710
Capital leases payable	4,057

Total current liabilities **\$ 34,148**

Noncurrent liabilities

Compensated absences payable	\$ 4,254
Capital leases payable	2,580

Total noncurrent liabilities **\$ 6,834**

Total Liabilities **\$ 40,982**

Net Assets

Invested in capital assets - net of related debt	\$ 10,028
Unrestricted	262,191

Total Net Assets **\$ 272,219**

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

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Operating Revenues	
Charges for services	\$ 114,232
Screenings and outreach	26,842
Health promotion and clinics	4,621
School services	30,770
Miscellaneous	11,655
	<hr/>
Total Operating Revenues	\$ 188,120
Operating Expenses	
Personnel	\$ 555,489
Professional services	9,715
Administrative	31,318
Travel	14,250
Materials and supplies	11,142
Equipment rental and repair	3,111
Rent	16,350
Direct costs	19,876
Depreciation	8,073
	<hr/>
Total Operating Expenses	\$ 669,324
Operating Income (Loss)	\$ (481,204)
Nonoperating Revenues (Expenses)	
Property taxes	\$ 153,614
Intergovernmental	329,469
Interest income	2,973
Interest expense	(950)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 485,106
Change in Net Assets	\$ 3,902
Net Assets - January 1	268,317
	<hr/>
Net Assets - December 31	\$ 272,219
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**NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 194,924
Payments to suppliers	(108,966)
Payments to employees	<u>(546,805)</u>
Net cash provided by (used in) operating activities	<u>\$ (460,847)</u>
Cash Flows from Noncapital Financing Activities	
Property taxes	\$ 153,614
Intergovernmental	<u>318,756</u>
Net cash provided by (used in) noncapital financing activities	<u>\$ 472,370</u>
Cash Flows from Capital and Related Financing Activities	
Lease payments	\$ (3,636)
Interest paid on long-term debt	(950)
Purchases of capital assets	<u>(7,150)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (11,736)</u>
Cash Flows from Investing Activities	
Investment earnings received	\$ 2,973
Maturity of certificate of deposit	50,000
Purchase of certificate of deposit	<u>(100,000)</u>
Net cash provided by (used in) investing activities	<u>\$ (47,027)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (47,240)
Cash and Cash Equivalents at January 1	<u>182,943</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 135,703</u></u>

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

***EXHIBIT 3
(Continued)***

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009**

**Reconciliation of Operating Income (Loss) to Net Cash Provided by
(Used in) Operating Activities**

Operating income (loss)	\$ (481,204)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 8,073
Recognized loss on disposal of capital asset	251
(Increase) decrease in accounts receivable	6,686
(Increase) decrease in contracts receivable	118
(Increase) decrease in prepaid items	4,464
Increase (decrease) in accounts payable	(4,651)
Increase (decrease) in salaries payable	(471)
Increase (decrease) in payroll-related liabilities	(688)
Increase (decrease) in compensated absences	9,155
Increase (decrease) in due to other governments	(2,580)
Total adjustments	\$ 20,357
Net Cash Provided by (Used in) Operating Activities	\$ (460,847)

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009**

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 year ended December 31, 2009. 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 Public Health has the option to apply FASB pronouncements issued after that date, it has chosen not to do so. The more significant accounting policies established in GAAP and used by the Public Health 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 two Commissioners 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. 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 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 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 statement of revenues, expenses, and changes in net assets distinguishes 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:

Cash and cash equivalents	\$ 135,603
Petty cash and change funds	100
Certificate of deposit	<u>100,000</u>
Total Cash and Cash Equivalents	<u>\$ 235,703</u>

Norman-Mahnomen Public Health is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. Norman-Mahnomen Public Health is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit 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 or 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, 2009, its deposits were not exposed to custodial credit risk.

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

2. Detailed Notes

A. Assets (Continued)

2. Investments

Norman-Mahnomen Public Health may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (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 year ended December 31, 2009, Norman-Mahnomen Public Health had no investments, except for a certificate of deposit purchased through a local bank.

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

2. Detailed Notes

A. Assets (Continued)

3. Receivables

Receivables as of December 31, 2009, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts	\$ 19,246	\$ -
Grants	18,692	-
Contracts	22,895	-
Total	\$ 60,833	\$ -

4. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated Machinery, furniture, and equipment	\$ 41,378	\$ 7,150	\$ 1,809	\$ 46,719
Less: accumulated depreciation for machinery, furniture, and equipment	23,539	8,073	1,558	30,054
Total Capital Assets Depreciated, Net	\$ 17,839	\$ (923)	\$ 251	\$ 16,665

Depreciation expense for the year was \$8,073.

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

2. Detailed Notes (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2009, were as follows:

Accounts	\$	3,505
Salaries		734
Due to other governments		7,710
Total Payables	\$	11,949

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, 2009:

Lease	Maturity	Installment	Payment Amount	Original	Balance
2006 copier/printer	2011	Monthly	\$ 382	\$ 17,578	\$ 6,637

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2009, were as follows:

Year Ending December 31	Governmental Activities
2010	\$ 4,586
2011	2,675
Total minimum lease payments	\$ 7,261
Less: amount representing interest	(624)
Present Value of Minimum Lease Payments	\$ 6,637

**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, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for Capital leases	\$ 10,273	\$ -	\$ 3,636	\$ 6,637	\$ 4,057
Compensated absences	13,241	50,400	41,245	22,396	18,142
Long-Term Liabilities	<u>\$ 23,514</u>	<u>\$ 50,400</u>	<u>\$ 44,881</u>	<u>\$ 29,033</u>	<u>\$ 22,199</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). 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.

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

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

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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. Normal retirement age is 65 for members hired prior to July, 1, 1989, and is the age for unreduced Social Security benefits capped at age 66 for Coordinated Plan members hired on or after July 1, 1989. 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.

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.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. 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 are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary.

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

3. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

Norman-Mahnomen Public Health is required to contribute the following percentages of annual covered payroll in 2009:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.75

Norman-Mahnomen Public Health's contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund were:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Public Employees Retirement Fund	\$ 28,189	\$ 25,396	\$ 23,128

These contribution amounts are 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. Norman-Mahnomen Public Health has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT), formerly the Minnesota Counties Insurance Trust. It is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. Norman-Mahnomen Public Health retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the 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 \$430,000 per claim in 2009 and \$450,000 per claim in 2010. 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.

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

4. Risk Management (Continued)

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 2009, 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 2009, Norman-Mahnomen Public Health contributed \$500 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, 2009, were as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues	\$ 253,648	\$ 188,120	\$ (65,528)
Operating Expenses	<u>682,223</u>	<u>669,324</u>	<u>12,899</u>
Operating Income (Loss)	\$ (428,575)	\$ (481,204)	\$ (52,629)
Nonoperating Revenues (Expenses)	<u>428,575</u>	<u>485,106</u>	<u>56,531</u>
Net Income (Loss)	<u>\$ -</u>	<u>\$ 3,902</u>	<u>\$ 3,902</u>

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

**SCHEDULE OF FINDINGS AND RECOMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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. The Board reviews the office procedures annually to insure that the agency is operating with the best segregation of duties possible with this limited amount of staff.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Norman-Mahnomen Community Health Board
Norman-Mahnomen Public Health

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements of Norman-Mahnomen Public Health as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, 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.

A deficiency in internal control over financial reporting 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Public Health's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency described in the accompanying Schedule of Findings and Recommendations as item 97-1. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Minnesota Legal Compliance

We have audited the basic financial statements of Norman-Mahnomen Public Health as of and for the year ended December 31, 2009. 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 six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. 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.

Norman-Mahnomen Public Health's written response to the internal control finding identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit the Public Health's response and, accordingly, we express no opinion on it.

This communication 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 19, 2010