

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA

YEAR ENDED DECEMBER 31, 2013

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, 2013



**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, 2013

| | <u>Position</u> | <u>County</u> | <u>Term Expires</u> |
|------------------------|-----------------|---------------|---------------------|
| Community Health Board | | | |
| Karen Ahmann | Chair | Mahnomen | 2014 |
| James Kochmann | Member | Mahnomen | 2014 |
| Sue Klassen | Member | Mahnomen | 2014 |
| Steven Bommersbach | Vice Chair | Norman | 2014 |
| Marvin Gunderson | Secretary | Norman | 2014 |
| Eldon Hetland | Member | Norman | 2014 |
| RN/PHN Director | | | |
| Jamie Hennen | | | Indefinite |

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Norman-Mahnomen Board of Health
Norman-Mahnomen Public Health

We have audited the accompanying financial statements of Norman-Mahnomen Public Health as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Public Health's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Public Health's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Public Health's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Norman-Mahnomen Public Health as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 Norman-Mahnomen Public Health adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provided any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2014, on our consideration of Norman-Mahnomen Public Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and

the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Norman-Mahnomen Public Health's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 7, 2014

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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, 2013
(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, 2013. 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 Board of Health is a joint powers enterprise operation of Mahnomen and Norman Counties doing business as Norman-Mahnomen Public Health. The Norman-Mahnomen Board of Health is part of a joint Community Health Services Agency through a delegation agreement with the Polk-Norman-Mahnomen Community Health Board 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 Community Health Board joined with Polk County Community Health Board to form the Polk-Norman-Mahnomen Community Health Board effective January 1, 2013. The Norman-Mahnomen Community Health Board was renamed the Norman-Mahnomen Board of Health. Under the new Community Health Board, there exist two separate health departments, Norman-Mahnomen Public Health and Polk County Public Health.

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 Board of Health and 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 until it joined with Polk County in 2013.

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 position 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 position 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 Position | | | Percent (%) Change |
|----------------------------------|---------------------|-------------------|-------------------------|--------------------------|
| | 2013 | 2012 | Increase/ (Decrease) | |
| Assets | | | | |
| Current and other assets | \$ 365,396 | \$ 287,048 | \$ 78,348 | 27.29 |
| Capital assets | <u>31,349</u> | <u>35,996</u> | <u>(4,647)</u> | (12.91) |
| Total Assets | <u>\$ 396,745</u> | <u>\$ 323,044</u> | <u>\$ 73,701</u> | 22.81 |
| Liabilities | | | | |
| Current liabilities | \$ 36,507 | \$ 21,612 | \$ 14,895 | 68.92 |
| Long-term/noncurrent liabilities | <u>3,729</u> | <u>3,868</u> | <u>(139)</u> | (3.59) |
| Total Liabilities | <u>\$ 40,236</u> | <u>\$ 25,480</u> | <u>\$ 14,756</u> | 57.91 |
| Net Position | | | | |
| Net investment in capital assets | \$ 31,349 | \$ 35,996 | \$ (4,647) | (12.91) |
| Unrestricted | <u>325,160</u> | <u>261,568</u> | <u>63,592</u> | 24.31 |
| Total Net Position | <u>\$ 356,509</u> | <u>\$ 297,564</u> | <u>\$ 58,945</u> | 19.81 |

Changes in Net Position

| | 2013 | 2012 | Increase/ (Decrease) | Percent (%) Change |
|--|---------------------|--------------------|-------------------------|--------------------------|
| Operating revenues | | | | |
| Charges for services | \$ 99,323 | \$ 73,859 | \$ 25,464 | 34.48 |
| Screenings and outreach | 29,812 | 26,827 | 2,985 | 11.13 |
| Health promotions and clinics | 3,739 | 4,817 | (1,078) | (22.38) |
| School services | 30,037 | 38,925 | (8,888) | (22.83) |
| Miscellaneous | 12,261 | 18,368 | (6,107) | (33.25) |
| Nonoperating revenues | | | | |
| Property taxes | 153,614 | 153,614 | - | - |
| Intergovernmental | 706,787 | 349,422 | 357,365 | 102.27 |
| Interest income | 369 | 560 | (191) | (34.11) |
| Total Revenues | \$ 1,035,942 | \$ 666,392 | \$ 369,550 | 55.46 |
| Operating expenses | | | | |
| Personnel | \$ 550,383 | \$ 543,277 | \$ 7,106 | 1.31 |
| Professional services | 13,006 | 2,272 | 10,734 | 472.45 |
| Administrative | 33,671 | 38,392 | (4,721) | (12.30) |
| Travel | 20,289 | 18,648 | 1,641 | 8.80 |
| Materials and supplies | 6,391 | 15,823 | (9,432) | (59.61) |
| Equipment rental and repair | 5,347 | 10,665 | (5,318) | (49.86) |
| Rent | 15,750 | 15,750 | - | - |
| Direct costs | 322,218 | 57,244 | 264,974 | 462.89 |
| Depreciation | 9,942 | 7,110 | 2,832 | 39.83 |
| Total Expenses | \$ 976,997 | \$ 709,181 | \$ 267,816 | 37.76 |
| Increase (Decrease) in Net Position | \$ 58,945 | \$ (42,789) | \$ 101,734 | 237.76 |

Due to changes in the Blue Cross and Blue Shield (BCBS) billing procedures for flu shots, there was \$7,776 that was disputed with BCBS at the end of 2012. This amount was not recorded as 2012 revenue as it was uncertain whether or not Norman-Mahnomen Public Health would be successful in the dispute. This revenue was received in 2013, increasing the flu shot revenue for 2013.

On October 1, 2013, long-term care consultant screenings and PCA screenings were changed to long-term services and supports paid for under a time study formula by the State of Minnesota. This increased the screening revenue in 2013.

The need to prioritize services due to staffing shortages resulted in the identification of a private foot care vendor for Norman County. Foot care services in Norman County were discontinued in 2012, decreasing foot care revenue for 2013.

The schools that Norman-Mahnomen Public Health serves for hepatitis B vaccines began to purchase the vaccines through Polk County Public Health to get better volume pricing. Hepatitis B vaccines were no longer purchased and resold through Norman-Mahnomen Public

Health, decreasing health promotions and clinics revenue. This also decreased the corresponding expenses. The administration of the vaccine is still done by Norman-Mahnomen Public Health staff under our school contracts.

In November 2012, Waubun School discontinued the contract for school nurse services with Norman-Mahnomen Public Health, resulting in a \$7,200 decrease in school services revenue.

The amount of the Minnesota Counties Intergovernmental Trust dividend decreased in 2013 by \$6,405 from 2012.

Effective January 2013, Norman-Mahnomen Public Health took on the fiscal hosting for the regional Health Information Exchange grant. A large portion of this grant passed through this agency, increasing intergovernmental revenues by \$222,472, direct cost expenses by \$203,231, and personnel cost by \$2,970 for a net revenue of \$16,271.

In January 2013, Norman-Mahnomen Public Health began participating in the Maternal, Infant, and Early Childhood Home Visiting expansion grant program. This increased intergovernmental revenues by \$93,606 and direct cost expenses by \$47,201 in addition to personnel cost.

Effective July 16, 2012, Norman-Mahnomen Public Health was awarded a contract with North Country Community Health Board to provide Community Transformation Grant services in the amount of \$5,000 through September 29, 2012. The contract was renewed for September 30, 2012, through September 29, 2013, in the amount of \$15,571. This grant was again renewed for September 30, 2013, through September 29, 2014, but ended at that time.

Effective July 1, 2013, Polk-Norman-Mahnomen Community Health Board was awarded the Family Planning Special Project grant. This meant an increase of intergovernmental revenues of \$20,778 for 2013.

The initial State Health Improvement Project (SHIP) grant funding was completed June 30, 2011. SHIP continuation funding occurred on a much smaller scale in the second half of 2011. SHIP funding for 2012 was awarded on a competitive basis. Norman-Mahnomen Public Health received funding in a joint application with North Country Community Health Board and Polk County Community Health Board. North Country Community Health Board (NCCHB) is the fiscal host for this funding. Norman-Mahnomen Public Health entered into a contract with NCCHB to provide SHIP coordination services in Norman, Mahnomen, and Polk Counties, along with one staff member from Polk County. Additional SHIP staff services are being provided under an independent contract in both Norman and Mahnomen Counties due to lack of staffing. This funding continued through June 30, 2013. There was SHIP bridge funding received by NCCHB for the time period of July through October 2013. Norman-Mahnomen Public Health continued the contract with NCCHB to provide SHIP services in Norman and Mahnomen Counties. Polk-Norman-Mahnomen Community Health Board was awarded a smaller SHIP grant effective November 1, 2013. This funding ended for Norman-Mahnomen Public Health in September 2014.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

| | Capital Assets at Year-End (Net of Depreciation) | | | Percent (%) Change |
|------------------|---|------------------|-------------------------|--------------------------|
| | 2013 | 2012 | Increase/ (Decrease) | |
| Office equipment | <u>\$ 31,349</u> | <u>\$ 35,996</u> | <u>\$ (4,647)</u> | (12.91) |

FUTURE EVENTS

The Community Transformation Grant will end due to federal program discontinuation effective September 30, 2014.

One RN/PHN resigned in June 2014, and this position was not filled due to a staffing shortage in the service area. The SHIP grant will be provided to Norman and Mahnomen Counties by Polk County Public Health under the Polk-Norman-Mahnomen Community Health Board effective September 30, 2014.

Maternal, Infant, and Early Childhood Home Visiting funding after March 2015 is not yet determined.

CONTACTING THE PUBLIC HEALTH'S FINANCIAL MANAGEMENT

This financial report provides our citizens, taxpayers, customers, and creditors with a general overview of the Public Health's finances and shows the Public Health'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 Public Health Director, 15 East 2nd Avenue North, Room 107, Ada, Minnesota 56510; 218-784-5425; jamie.hennen@co.norman.mn.us.

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BASIC FINANCIAL STATEMENTS

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

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2013**

| | <u>2013</u> |
|----------------------------------|-------------------|
| <u>Assets</u> | |
| Current assets | |
| Cash and cash equivalents | \$ 176,392 |
| Petty cash and change funds | 100 |
| Accounts receivable - net | 11,240 |
| Grants receivable | 140,065 |
| Contracts receivable | 18,046 |
| Prepaid items | <u>19,553</u> |
| Total current assets | \$ 365,396 |
| Noncurrent assets | |
| Depreciable capital assets - net | <u>31,349</u> |
| Total Assets | \$ 396,745 |
| <u>Liabilities</u> | |
| Current liabilities | |
| Accounts payable | \$ 18,677 |
| Salaries payable | 558 |
| Compensated absences payable | 9,172 |
| Due to other governments | <u>8,100</u> |
| Total current liabilities | \$ 36,507 |
| Noncurrent liabilities | |
| Compensated absences payable | <u>3,729</u> |
| Total Liabilities | \$ 40,236 |
| <u>Net Position</u> | |
| Net investment in capital assets | \$ 31,349 |
| Unrestricted | <u>325,160</u> |
| Total Net Position | \$ 356,509 |

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

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013**

| | 2013 |
|---|---------------------|
| Operating Revenues | |
| Charges for services | \$ 99,323 |
| Screenings and outreach | 29,812 |
| Health promotion and clinics | 3,739 |
| School services | 30,037 |
| Miscellaneous | 12,261 |
| Total Operating Revenues | \$ 175,172 |
| Operating Expenses | |
| Personnel | \$ 550,383 |
| Professional services | 13,006 |
| Administrative | 33,671 |
| Travel | 20,289 |
| Materials and supplies | 6,391 |
| Equipment rental and repair | 5,347 |
| Rent | 15,750 |
| Direct costs | 322,218 |
| Depreciation | 9,942 |
| Total Operating Expenses | \$ 976,997 |
| Operating Income (Loss) | \$ (801,825) |
| Nonoperating Revenues (Expenses) | |
| Property taxes | \$ 153,614 |
| Intergovernmental | 706,787 |
| Interest income | 369 |
| Total Nonoperating Revenues (Expenses) | \$ 860,770 |
| Change in Net Position | \$ 58,945 |
| Net Position - January 1 | 297,564 |
| Net Position - December 31 | \$ 356,509 |

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

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013**

| | 2013 |
|--|---------------------|
| Cash Flows from Operating Activities | |
| Receipts from customers and users | \$ 165,572 |
| Payments to suppliers | (407,616) |
| Payments to employees | (551,229) |
| | \$ (793,273) |
| Cash Flows from Noncapital Financing Activities | |
| Property taxes | \$ 153,614 |
| Intergovernmental | 622,054 |
| | \$ 775,668 |
| Cash Flows from Capital and Related Financing Activities | |
| Purchases of capital assets | \$ (5,295) |
| Cash Flows from Investing Activities | |
| Investment earnings received | \$ 369 |
| Maturity of certificate of deposit | 103,385 |
| | \$ 103,754 |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ 80,854 |
| Cash and Cash Equivalents at January 1 | 95,638 |
| Cash and Cash Equivalents at December 31 | \$ 176,492 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities | |
| Operating income (loss) | \$ (801,825) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities | |
| Depreciation expense | \$ 9,942 |
| (Increase) decrease in accounts receivable | 1,251 |
| (Increase) decrease in contracts receivable | (10,851) |
| (Increase) decrease in prepaid items | (6,546) |
| Increase (decrease) in accounts payable | 8,300 |
| Increase (decrease) in salaries payable | 136 |
| Increase (decrease) in compensated absences | (982) |
| Increase (decrease) in due to other governments | 7,302 |
| | \$ 8,552 |
| Total adjustments | \$ 8,552 |
| Net Cash Provided by (Used in) Operating Activities | \$ (793,273) |

The notes to the financial statements are an integral part of this statement.

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

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, 2013. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the Public Health are discussed below.

Changes in Accounting Principles

During 2013, Norman-Mahnomen Public Health adopted new accounting guidance by implementing the provisions of GASB Statements 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, and amendment of GASB Statements No. 14 and No. 34*, modifies and clarifies the requirements for inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.6. for additional information regarding the Public Health's deferred outflows/inflows of resources.

Restatement of December 31, 2012, net position was not required as a result of adopting these changes in accounting principles.

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, amended effective January 1, 2005, for the withdrawal of Becker County. In 2012, Norman and Mahnomen Counties entered into a joint powers agreement pursuant to Minn. Stat. ch. 145A to create the Polk-Norman-Mahnomen Community Health Board. Effective December 31, 2012, the Norman-Mahnomen Community Health Board was dissolved and, on January 1, 2013, the Norman-Mahnomen Board of Health was created and will do business under the name Norman-Mahnomen Public Health.

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

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

The Norman-Mahnomen Board of Health consists of six members, three each from Norman and Mahnomen Counties. The Board includes at least one County Commissioner. The remaining members are representative of the people in the community or consumers of health services and include at least one person who is not a member of the County Board.

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 three joint ventures described in Note 5.B.

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.

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

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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, Deferred Outflows/Inflows of Resources, and Net Position 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.

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.

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

4. Capital Assets (Continued)

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 |

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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Currently, Norman-Mahnomen Public Health has no items that qualify for reporting in this category.

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

6. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Currently, Norman-Mahnomen Public Health has no items that qualify for reporting in this category.

7. Equity Classifications

Equity is classified as net position. Net investment in capital assets represents capital assets, net of accumulated depreciation, reduced by debt attributed to the acquisition, construction, or improvement of the assets. Unrestricted net position is net position that does not meet the definition of restricted or net investment in capital assets.

8. Operating Revenues and Expenses

Norman-Mahnomen Public Health's statement of revenues, expenses, and changes in net position 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 revenues (expenses). Operating expenses are all expenses incurred to provide services.

9. 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>2013</u> |
|---------------------------------|-------------------|
| Cash and cash equivalents | \$ 176,392 |
| Petty cash and change funds | <u>100</u> |
| Total Cash and Cash Equivalents | <u>\$ 176,492</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, 2013, 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, 2013, 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, 2013, including the applicable allowances for uncollectible accounts, are as follows:

| | Total Receivables | Amounts Not Scheduled for Collection During the Subsequent Year |
|-----------|----------------------|--|
| Accounts | \$ 11,240 | \$ - |
| Grants | 140,065 | - |
| Contracts | 18,046 | - |
| Total | \$ 169,351 | \$ - |

4. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|--|----------------------|------------|----------|-------------------|
| Capital assets depreciated Machinery, furniture, and equipment | \$ 65,030 | \$ 5,295 | \$ 5,563 | \$ 64,762 |
| Less: accumulated depreciation for machinery, furniture, and equipment | 29,034 | 9,942 | 5,563 | 33,413 |
| Total Capital Assets Depreciated, Net | \$ 35,996 | \$ (4,647) | \$ - | \$ 31,349 |

Depreciation expense for the year was \$9,942.

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

2. Detailed Notes (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2013, were as follows:

| | | |
|--------------------------|----|--------|
| Accounts | \$ | 18,677 |
| Salaries | | 558 |
| Due to other governments | | 8,100 |
| Total Payables | \$ | 27,335 |

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|-----------|------------|-------------------|------------------------|
| Estimated liability for compensated absences | \$ 13,883 | \$ 46,849 | \$ 47,831 | \$ 12,901 | \$ 9,172 |

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 pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General 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.

General 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 and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

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

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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. Defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining 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 General Employees Retirement Fund members hired prior to July 1, 1989, 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 or 66 (depending on date hired) for General Employees Retirement Fund members. 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 General 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. 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. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary.

Norman-Mahnomen Public Health is required to contribute the following percentages of annual covered payroll in 2013:

| | |
|-----------------------------------|--------|
| General Employees Retirement Fund | |
| Basic Plan members | 11.78% |
| Coordinated Plan members | 7.25 |

Norman-Mahnomen Public Health's contributions for the years ending December 31, 2013, 2012, and 2011, for the General Employees Retirement Fund were:

| <u>2013</u> | <u>2012</u> | <u>2011</u> |
|-------------|-------------|-------------|
| \$ 28,389 | \$ 28,073 | \$ 29,416 |

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). 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.

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

4. Risk Management (Continued)

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 \$470,000 per claim in 2013 and \$480,000 per claim in 2014. 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 432 and 435, the 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-OTWA Community Action Partnership, 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.

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

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Mahnomen County Interagency Collaborative (Continued)

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.

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. During 2013, 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 composed 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.

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

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

The Children's Collaborative (Serving Norman County Families) (Continued)

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 2013, Norman-Mahnomen Public Health contributed \$600 to the Collaborative.

Polk-Norman-Mahnomen Community Health Board

The Polk-Norman-Mahnomen Community Health Board was established in 2012 under the authority of Minn. Stat. §§ 145A and 471.59. The Community Health Board includes the Polk County Board of Health and the Norman-Mahnomen Board of Health. The purpose of the Community Health Board is to engage in activities designed to protect and promote the health of the general population within a community health service area by emphasizing the prevention of disease, injury, disability, and preventable death through the promotion of effective coordination and use of community resources, and by extending health services into the community.

Control of the Community Health Board is vested in a seven-member board with Polk, Norman, and Mahnomen Counties each appointing one member and the Polk County Board of Health and the Norman-Mahnomen Board of Health each appointing two members.

In the event of withdrawal from the Community Health Board, the withdrawing party shall give a one-year notice. Should the Community Health Board cease to exist, all property, real and personal, held by the Community Health Board at the time of termination shall be distributed to each joint participant in proportion to its relative financial contributions.

Financing is provided by state and federal grants. Polk County is the fiscal agent for the Community Health Board. During 2013, Norman-Mahnomen Public Health contributed \$4,363 to the Community Health Board.

**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, 2013, were as follows:

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|----------------------------------|------------------|------------------|---|
| Operating Revenues | \$ 167,541 | \$ 175,172 | \$ 7,631 |
| Operating Expenses | <u>1,062,405</u> | <u>976,997</u> | <u>85,408</u> |
| Operating Income (Loss) | \$ (894,864) | \$ (801,825) | \$ 93,039 |
| Nonoperating Revenues (Expenses) | <u>914,315</u> | <u>860,770</u> | <u>(53,545)</u> |
| Net Income (Loss) | <u>\$ 19,451</u> | <u>\$ 58,945</u> | <u>\$ 39,494</u> |

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SUPPLEMENTARY INFORMATION

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

EXHIBIT A-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|--|------------------------------------|---------------------|
| U.S. Department of Agriculture | | |
| Passed Through Polk-Norman-Mahnomen Community Health Board Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | <u>\$ 37,899</u> |
| U.S. Department of Health and Human Services | | |
| Passed Through Minnesota Department of Health Universal Newborn Hearing Screening | 93.251 | \$ 400 |
| Immunization Cooperative Agreements | 93.268 | 3,000 |
| Passed Through Polk-Norman-Mahnomen Community Health Board Public Health Emergency Preparedness | 93.069 | 53,052 |
| Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program | 93.505 | 93,606 |
| Temporary Assistance for Needy Families | 93.558 | 44,624 |
| State Grants to Promote Health Information Technology - ARRA | 93.719 | 221,472 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | 20,579 |
| Passed Through North Country Community Health Board PPHF - Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - Financed Solely by Prevention and Public Health Funds | 93.531 | 17,942 |
| Passed Through Polk-Norman-Mahnomen Community Health Board Medical Assistance Program | 93.778 | <u>18,431</u> |
| Total U.S. Department of Health and Human Services | | <u>\$ 473,106</u> |
| Total Federal Awards | | <u>\$ 511,005</u> |

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Norman-Mahnomen Public Health. The agency's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Norman-Mahnomen Public Health under programs of the federal government for the year ended December 31, 2013. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Norman-Mahnomen Public Health, it is not intended to and does not present the financial position, changes in net position, or cash flows of Norman-Mahnomen Public Health.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Subrecipients

Of the expenditures presented in the schedule, Norman-Mahnomen Public Health did not pass any federal awards to subrecipients.

5. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

| | |
|---|--------------|
| Affordable Care Act (ACA) Maternal, Infant, and Early Childhood | |
| Home Visiting Program | CFDA #93.505 |
| State Grants to Promote Health Information Technology - ARRA | CFDA #93.719 |

The threshold for distinguishing between Types A and B programs was \$300,000.

Norman-Mahnomen Public Health qualified as a low-risk auditee? **No**

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 1997-001

Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect Norman-Mahnomen Public Health's assets, proper segregation of the record keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

Condition: Due to the limited number of personnel within Norman-Mahnomen Public Health's offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible.

Context: This is not unusual in operations the size of Norman-Mahnomen Public Health; however, management 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.

Effect: Inadequate segregation of duties could adversely affect Norman-Mahnomen Public Health's ability to detect misstatements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The size of Norman-Mahnomen Public Health and its staffing limits the internal control that management can design and implement into the organization.

Recommendation: We recommend Norman-Mahnomen Public Health's officials and management be mindful that limited staffing increases the risks in safeguarding assets and the proper recording of its financial activity and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

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 ensure that the agency is operating with the best segregation of duties possible with this limited amount of staff.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

Norman-Mahnomen Board of Health
Norman-Mahnomen Public Health

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Norman-Mahnomen Public Health as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Public Health's basic financial statements, and have issued our report thereon dated November 7, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Norman-Mahnomen Public Health's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitation, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 1997-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Norman-Mahnomen Public Health's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Public Health's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for contracting and bidding because Norman-Mahnomen Public Health did not do any contracting in 2013. We also did not test for compliance with the provisions for public indebtedness because Norman-Mahnomen Public Health does not have any debt.

In connection with our audit, nothing came to our attention that caused us to believe that Norman-Mahnomen Public Health failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Public Health's noncompliance with the above referenced provisions.

Norman-Mahnomen Public Health's Response to Finding

Norman-Mahnomen Public Health's response to the internal control finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The Public Health's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the Public Health's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Public Health's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 7, 2014

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Norman-Mahnomen Board of Health
Norman-Mahnomen Public Health

Report on Compliance for Each Major Federal Program

We have audited Norman-Mahnomen Public Health's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Public Health's major federal programs for the year ended December 31, 2013. Norman-Mahnomen Public Health's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Norman-Mahnomen Public Health's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Norman-Mahnomen Public Health's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Public Health's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Norman-Mahnomen Public Health complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of Norman-Mahnomen Public Health is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Public Health's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Public Health's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

November 7, 2014

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR