

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

FOR THE YEARS ENDED
DECEMBER 31, 2004 AND 2005

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing (TIF) - promotes compliance and accountability in local governments' use of TIF through financial and compliance audits.

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

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: www.auditor.state.mn.us.

**LINCOLN, LYON, MURRAY AND
PIPESTONE PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

**For the Years Ended
December 31, 2004 and 2005**



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

This page was left blank intentionally.

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Statement of Net Assets	Exhibit 1	8
Statement of Revenues, Expenses, and Changes in Net Assets	Exhibit 2	9
Statement of Cash Flows	Exhibit 3	10
Notes to the Financial Statements		11
Management and Compliance Section		
Schedule of Findings and Recommendations		25
Report on Minnesota Legal Compliance		31

This page was left blank intentionally.

This page was left blank intentionally.

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

ORGANIZATION
2005

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Chair	Marvin Tinklenberg	December 2006
Vice Chair	Steve Ritter	December 2006
Secretary	Eleanor Hewitt	December 2007
Member	Deane Sagmoe	December 2005
Member	Phil Nelson	December 2007
Member	Robert Moline	December 2008
Member	Richard Sartell	December 2007
Member	Jeane Anderson	December 2006
Member	Judy Zwart	December 2007
Director/Administrator	John Schuh	Indefinite

This page was left blank intentionally.

This page was left blank intentionally.



STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of Health
Lincoln, Lyon, Murray and Pipestone Public Health Services

We have audited the accompanying basic financial statements of the Lincoln, Lyon, Murray and Pipestone Public Health Services as of and for the years ended December 31, 2004 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Health Services' management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Lincoln, Lyon, Murray and Pipestone Public Health Services as of December 31, 2004 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, the Lincoln, Lyon, Murray and Pipestone Public Health Services adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended, and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the years ended December 31, 2004 and 2005. These statements result in a change in format and content of the basic financial statements.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: July 20, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2004 and 2005
(Unaudited)**

The Lincoln, Lyon, Murray and Pipestone Public Health Services' Management's Discussion and Analysis (MD&A) provides an overview of the Health Services' financial activities for the fiscal years ended December 31, 2004 and 2005. Comparisons with the prior year are not presented in this first-year MD&A. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the Health Services' financial statements.

The Health Services is a joint powers enterprise operation of Lincoln, Lyon, Murray, and Pipestone Counties created to provide community health care for the residents of the four-county area.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The financial statements present the Health Services' 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 the Health Services.
- The statement of revenues, expenses, and changes in net assets provides information on an aggregate view of the Health Services' finances. All of the current year's revenues and expenses are taken into account regardless of when the cash was received or paid.
- The statement of cash flows provides sources and uses of cash for the Health Services.

FINANCIAL ANALYSIS

	Net Assets			Percent Change (%)
	2004	2005	Increase (Decrease)	
Assets				
Current and other assets	\$ 977,131	\$ 1,112,457	\$ 135,326	13.85
Capital assets	<u>30,141</u>	<u>25,567</u>	<u>(4,574)</u>	(15.18)
Total Assets	<u>\$ 1,007,272</u>	<u>\$ 1,138,024</u>	<u>\$ 130,752</u>	12.98
Liabilities				
Current liabilities	\$ 111,100	\$ 133,672	\$ 22,572	20.32
Noncurrent liabilities	<u>82,874</u>	<u>98,580</u>	<u>15,706</u>	18.95
Total Liabilities	<u>\$ 193,974</u>	<u>\$ 232,252</u>	<u>\$ 38,278</u>	19.73
Net Assets				
Invested in capital assets	\$ 30,141	\$ 25,567	\$ (4,574)	(15.18)
Unrestricted	<u>783,157</u>	<u>880,205</u>	<u>97,048</u>	12.39
Total Net Assets	<u>\$ 813,298</u>	<u>\$ 905,772</u>	<u>\$ 92,474</u>	11.37

The Lincoln, Lyon, Murray and Pipestone Public Health Services tried to maximize its investments by investing in CDs with high interest rates as well as adding to the total amount invested. The increase in assets from 2004 to 2005 was a result of that action. An inventory of assets was completed, resulting in a more accurate listing of assets.

The increase in total liabilities from 2004 to 2005 is due to an increase in salaries payable and deferred revenue. The Health Services had purchased more towards the end of 2004; therefore, the accounts payable was increased due to the purchases not being paid until 2005. Due to changes in nursing programs, more staff were hired. There was also a change in payroll from a semi-monthly to bi-weekly positive payment schedule.

	Changes in Net Assets			Percent Change (%)
	2004	2005	Increase (Decrease)	
Operating Revenues				
Charges for services	\$ 284,172	\$ 366,454	\$ 82,282	28.95
Miscellaneous	<u>29,238</u>	<u>24,251</u>	<u>(4,987)</u>	(17.06)
Total Operating Revenues	\$ 313,410	\$ 390,705	\$ 77,295	24.66
Nonoperating Revenues				
Intergovernmental	907,225	935,027	27,802	3.1
Interest income	<u>14,137</u>	<u>27,068</u>	<u>12,931</u>	91.47
Total Revenues	<u>\$ 1,234,772</u>	<u>\$ 1,352,800</u>	<u>\$ 118,028</u>	4.42

(Unaudited)

Page 5

	2004	2005	Increase (Decrease)	Percent Change (%)
Operating Expenses				
Professional services	\$ 752,049	\$ 902,556	\$ 150,507	20.01
Administration	376,864	345,285	(31,579)	(8.38)
Depreciation	11,530	12,485	955	8.28
Total Operating Expenses	<u>\$ 1,140,443</u>	<u>\$ 1,260,326</u>	<u>\$ 119,883</u>	10.51
Change in Net Assets	<u>\$ 94,329</u>	<u>\$ 92,474</u>	<u>\$ (1,855)</u>	(1.97)

Total revenues increased from 2004 to 2005. The Lincoln, Lyon, Murray and Pipestone Public Health Services did not receive all grants for which applications were completed. Other grants were no longer available to the Public Health Services. Some grants not received were MBCCP, radon, and Youth Risk Behavior. Due to staffing changes in the care coordination program, not all revenue that could be earned in Temporary Assistance to Needy Families was accessed. More timely billings for services were completed. The Lincoln, Lyon, Murray and Pipestone Public Health Services did have a change in programming for care coordination.

Total expenses increased from 2004 to 2005 due to the services still provided. Although the Legislature lowered the dollars allotted in the Local Public Health Grant, the Health Services continued to follow our work plan activities for the current year. Therefore, with few staffing changes from 2004 to 2005, our expenses remained relatively the same with less funding. Also, expenses would increase when the Health Services adjusted salaries and insurance.

CAPITAL ASSETS

Capital Assets (Net of Depreciation)

	2004	2005	Increase (Decrease)	Percent Change (%)
Machinery, furniture, and equipment	<u>\$ 30,141</u>	<u>\$ 25,567</u>	<u>\$ (4,574)</u>	(15.18)

Additions were the purchase of a copier, some computers, and printer equipment, as well as a new incubator for the water lab.

FUTURE EVENTS

The Lincoln, Lyon, Murray and Pipestone Public Health Services looks forward to the future. The Board of Health and administration always assess the needs of our community citizens along with the grants, fees, and state and local dollars it will be receiving for the coming year.

The Health Services will evaluate staffing patterns to handle the activities for the coming year. We will monitor the agency's financial status monthly and monitor activities planned for our community.

CONTACTING THE HEALTH SERVICE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Health Services' finances and to show the Health Services' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrator, John Schuh, 607 West Main Street, Marshall, Minnesota 56258.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004 AND 2005**

	2004	2005
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 879,915	\$ 1,006,840
Petty cash and change funds	150	150
Accounts receivable	25,506	45,055
Due from other governments	58,214	41,875
Accrued interest receivable	1,425	3,103
Prepaid items	11,921	15,434
Total current assets	\$ 977,131	\$ 1,112,457
Noncurrent assets		
Depreciable capital assets - net	30,141	25,567
Total Assets	\$ 1,007,272	\$ 1,138,024
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 9,572	\$ 15,102
Salaries payable	38,163	53,447
Due to other governments	1,367	1,244
Deferred revenue	60,855	62,692
Total current liabilities	\$ 109,957	\$ 132,485
Noncurrent liabilities		
Compensated absences payable - due within one year	1,143	1,187
Compensated absences payable - long-term	82,874	98,580
Total Liabilities	\$ 193,974	\$ 232,252
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 30,141	\$ 25,567
Unrestricted	783,157	880,205
Total Net Assets	\$ 813,298	\$ 905,772

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005**

	2004	2005
Operating Revenues		
Charges for services	\$ 284,172	\$ 366,454
Miscellaneous	29,238	24,251
Total Operating Revenues	\$ 313,410	\$ 390,705
Operating Expenses		
Professional services	\$ 752,049	\$ 902,556
Administrative	376,864	345,285
Depreciation	11,530	12,485
Total Operating Expenses	\$ 1,140,443	\$ 1,260,326
Operating Income (Loss)	\$ (827,033)	\$ (869,621)
Nonoperating Revenues (Expenses)		
Intergovernmental		
State		
Local public health	\$ 250,047	\$ 250,084
Minnesota miscellaneous boards	2,290	1,815
Federal		
State Indoor Radon Grant	15,250	-
Women, Infants, and Children	151,257	186,755
Immunization Grants	4,000	2,000
Center for Disease Control and Prevention	89,608	94,579
Temporary Assistance for Needy Families (TANF)	25,372	27,417
Maternal and Child Health	64,228	67,204
Local		
County appropriations	305,173	305,173
Interest income	14,137	27,068
Total Nonoperating Revenues (Expenses)	\$ 921,362	\$ 962,095
Increase (Decrease) in Net Assets	\$ 94,329	\$ 92,474
Net Assets - January 1	718,969	813,298
Net Assets - December 31	\$ 813,298	\$ 905,772

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005
Increase (Decrease) in Cash and Cash Equivalents**

	2004	2005
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 335,117	\$ 369,109
Payments to suppliers	(382,646)	(338,517)
Payments to employees	(711,387)	(876,396)
	\$ (758,916)	\$ (845,804)
Cash Flows from Noncapital Financing Activities		
Intergovernmental receipts	\$ 587,277	\$ 647,599
County appropriations	305,173	307,651
	\$ 892,450	\$ 955,250
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	\$ (7,375)	\$ (7,911)
	\$ 17,416	\$ 25,390
Cash Flows from Investing Activities		
Investment income	\$ 17,416	\$ 25,390
	\$ 143,575	\$ 126,925
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 143,575	\$ 126,925
Cash and Cash Equivalents at January 1	736,490	880,065
Cash and Cash Equivalents at December 31	\$ 880,065	\$ 1,006,990
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ (827,033)	\$ (869,621)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	\$ 11,530	\$ 12,485
(Increase) decrease in accounts receivable	11,092	(19,549)
(Increase) decrease in due from other governments	10,615	(2,047)
(Increase) decrease in prepaid items	1,314	(3,513)
Increase (decrease) in accounts payable	(2,049)	5,530
Increase (decrease) in salaries payable	38,163	15,284
Increase (decrease) in compensated absences payable - current	1,143	44
Increase (decrease) in compensated absences payable - long-term	5,615	15,706
Increase (decrease) in due to other governments	(9,306)	(123)
	\$ 68,117	\$ 23,817
Total adjustments	\$ 68,117	\$ 23,817
Net Cash Provided by (Used in) Operating Activities	\$ (758,916)	\$ (845,804)

Noncash capital and related financing:

Lincoln, Lyon, Murray and Pipestone Public Health Services disposed of \$24,119 of capital assets with accumulated depreciation of \$23,932 in 2005 and \$27,721 of fully depreciated assets in 2004.

This page was left blank intentionally.

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005

1. Summary of Significant Accounting Policies

The Lincoln, Lyon, Murray and Pipestone Public Health Services' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the years ended December 31, 2004 and 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Board of Health has the option to apply FASB pronouncements issued after that date, the Board has chosen not to do so. The more significant accounting policies established in GAAP and used by the Board are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. For the first time, the financial statements include a Management's Discussion and Analysis section providing an analysis of the Health Services' overall financial position and results of operations.

This and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Board has elected to implement all provisions of the statement in the current year.

A. Financial Reporting Entity

Lincoln, Lyon, Murray and Pipestone Public Health Services was established August 1, 1978, with Murray County joining August 1, 1979; it is an organized agency having the powers, duties, and privileges granted by Minn. Stat. § 145A.09, et seq., and the Joint Powers Law, Minn. Stat. § 471.59. The Health Services is composed of a nine-member board: two County Commissioners representing the largest county, one County Commissioner from each of the other participating counties, and four lay members.

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

The primary activities of the Health Services are to protect and promote the health of the general population within the counties 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.

B. Basis of Presentation

The Health Services is organized and presented as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private enterprises, where the intent of the governing body is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Measurement Focus and Basis of Accounting

The Health Services' 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.

D. Budgetary Data

The Health Services adopts an annual budget prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. This budget is approved by the Health Services' Board.

E. Assets, Liabilities, and Net Assets

1. Assets

Investments

The Health Services' investments are stated at fair value.

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets

1. Assets (Continued)

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents include all cash and deposits.

Accounts Receivable

Accounts receivable are not reduced by an allowance for uncollectible accounts.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Expenses are recorded during the benefiting period.

Capital Assets

Capital assets consist of furniture and fixtures with an initial cost of \$300 or more and estimated useful life in excess of one year. Such assets are recorded at historical cost. Depreciation on the assets is calculated on a straight-line basis over five years.

2. Liabilities

Compensated Absences

The Health Services' personnel policy provides that its employees earn a certain amount of vacation and sick leave each year dependent upon years of service. Employees may accumulate vacation leave to a maximum of 224 hours. Sick leave for non-union employees may be accumulated to a maximum of 800 hours; however, severance benefits shall be based on a maximum of 500 hours. Sick leave for union employees may be accumulated to a maximum of 500 hours with

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets

2. Liabilities

Compensated Absences (Continued)

an exception for hours accumulated as of May 22, 1995. The personnel policy also provides that employees may earn compensatory time. Compensatory time in excess of 20 hours at month-end must be reduced to 20 hours or less by the last day of the following month.

Compensatory time exceeding 20 hours that is carried over but not taken during the following month will be paid to the employee at his or her normal rate of pay.

Deferred Revenue

Deferred revenue consists of federal, state, and local grants received by the Health Services but not yet earned.

3. Net Assets

Invested in capital assets represents the accumulated value of the capital assets of the Health Services.

Unrestricted net assets represent the accumulated earnings of the Health Services.

4. 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 end of 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.

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

F. Revenues and Expenses

1. Revenues

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange and exchange-like transactions are recognized as revenue when the exchange occurs.

Operating Revenues

Operating revenues consist primarily of charges for services and are recorded as revenue when the service is provided.

Nonoperating Revenues

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and state grants mandating the Health Services perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met, usually when the corresponding expenditure is incurred.

Voluntary nonexchange transactions result from legislative or contractual agreements, such as grants, entitlements, appropriations, and donations. The provider may establish purpose restrictions or eligibility requirements. Revenues are recognized in the year to which they apply according to the statute or contract. Gifts and contributions from individuals are also considered voluntary nonexchange transactions and are generally recognized when received.

Investment income is recognized as revenue when earned.

2. Expenses

Expenses, including compensated absences, are recognized when they are incurred.

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Budget

Below is a summary of the budgeted and actual amounts for the years ended December 31, 2004 and 2005:

	2004		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues	\$ 361,566	\$ 313,410	\$ (48,156)
Operating Expenses	1,278,299	1,140,443	137,856
Operating Income (Loss)	\$ (916,733)	\$ (827,033)	\$ 89,700
Nonoperating Revenues	916,733	921,362	4,629
Net Income (Loss)	\$ -	\$ 94,329	\$ 94,329
	2005		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	\$ 316,575	\$ 390,705	\$ 74,130
Operating Expenses	1,285,632	1,260,326	25,306
Operating Income (Loss)	\$ (969,057)	\$ (869,621)	\$ 99,436
Nonoperating Revenues	969,057	962,095	(6,962)
Net Income (Loss)	\$ -	\$ 92,474	\$ 92,474

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

Reconciliation of the Health Services' total cash as reported in the basic financial statements to deposits, cash on hand, and investments follows:

	<u>2004</u>	<u>2005</u>
Petty cash and change funds	\$ 150	\$ 150
Checking	337,915	414,840
Certificates of deposit	<u>542,000</u>	<u>592,000</u>
Total Deposits and Investments	<u>\$ 880,065</u>	<u>\$ 1,006,990</u>

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard 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.

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Health Services' deposits may not be returned to it. The Health Services does not have a deposit policy for custodial credit risk. As of December 31, 2004 and 2005, the Health Services' deposits were not exposed to custodial credit risk.

b. Investments

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

- (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;

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less, and;
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

During the years ended December 31, 2004 and 2005, the Health Services had no investments.

2. Due From Other Governments

	<u>2004</u>	<u>2005</u>
Federal grants	\$ 55,736	\$ 39,828
State grants	-	1,511
Local grants	<u>2,478</u>	<u>536</u>
Total Due From Other Governments	<u>\$ 58,214</u>	<u>\$ 41,875</u>

The Health Services did not have any amounts due from other governments scheduled to be collected beyond one year.

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

3. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the years ended December 31, 2004 and 2005, was as follows:

	Beginning Balance January 1, 2004	Increase	Decrease	Ending Balance December 31, 2004
Capital assets depreciated Machinery, furniture, and equipment	\$ 145,545	\$ 45,020	\$ 27,721	\$ 162,844
Less: accumulated depreciation for Machinery, furniture, and equipment	111,249	49,175	27,721	132,703
Total Capital Assets Depreciated, Net	\$ 34,296	\$ (4,155)	\$ -	\$ 30,141
	Beginning Balance January 1, 2005	Increase	Decrease	Ending Balance December 31, 2005
Capital assets depreciated Machinery, furniture, and equipment	\$ 162,844	\$ 7,911	\$ 24,119	\$ 146,636
Less: accumulated depreciation for Machinery, furniture, and equipment	132,703	12,485	24,119	121,069
Total Capital Assets Depreciated, Net	\$ 30,141	\$ (4,574)	\$ -	\$ 25,567

In 2004, the Health Services changed the capitalization threshold for reporting purposes from \$1,500 to \$300. As a result, capital assets were increased by \$37,645; and accumulated depreciation was also increased by \$37,645.

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

3. Detailed Notes (Continued)

B. Liabilities

Deferred Revenue

Deferred revenue consists of federal, state, or local grants received but not yet earned. Deferred revenue at December 31, 2004 and 2005, was:

	2004	2005
Grants for		
Bioterrorism	\$ 41,763	\$ 33,200
Maternal and Child Health	19,092	29,492
Total Due From Other Governments	\$ 60,855	\$ 62,692

Long-Term Liabilities

Following is a summary of changes in long-term liabilities for the years ended December 31, 2004 and 2005.

	Beginning Balance January 1, 2004	Additions	Reductions	Ending Balance December 31, 2004	Due Within One Year
Compensated absences	\$ 77,259	\$ 6,758	\$ -	\$ 84,017	\$ 1,143
	Beginning Balance January 1, 2005	Additions	Reductions	Ending Balance December 31, 2005	Due Within One Year
Compensated absences	\$ 84,017	\$ 15,750	\$ -	\$ 99,767	\$ 1,187

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

4. Pension Plans – Defined Benefit

A. Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

4. Pension Plans – Defined Benefit

A. Plan Description (Continued)

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Health Services makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2004 and 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. The Health Services is required to contribute the following percentages of annual covered payroll:

In 2004 and 2005

Public Employees Retirement Fund

Basic Plan members	11.78%
Coordinated Plan members	5.53

In 2006

Public Employees Retirement Fund

Basic Plan members	11.78%
Coordinated Plan members	6.00

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

4. Pension Plans – Defined Benefit

B. Funding Policy (Continued)

The Health Services' contributions for the years ending December 31, 2005, 2004, and 2003, were \$41,640, \$36,483, and \$39,242, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Risk Management

The Health Services is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Health Services is managing these risks with a membership in the Minnesota Counties Insurance Trust, a public entity risk pool (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. For risks related to hospitalization, medical, dental, and major medical for its employees, the Health Services purchases commercial insurance. The Health Services retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the basic financial statements. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of 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 \$720,000, \$760,000, and \$390,000 per claim in 2004, 2005, and 2006, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Health Services in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining and the Health Services pays an annual premium to cover current and future losses. The 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 the Health Services in a method and amount to be determined by MCIT.

This page was left blank intentionally.

**LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004 AND 2005**

I. FINDINGS AND QUESTIONED COST FOR FEDERAL AWARD PROGRAMS

A. COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

**Women, Infants, and Children (WIC) (CFDA #10.557) and Center for
Disease Control and Prevention - Investigations and Technical
Assistance (CFDA #93.283) (03-1)**

The Health Services did not have an approved indirect cost allocation plan.

Resolution

An indirect cost allocation plan was approved for these programs on April 5, 2004.

B. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

Lack of Segregation of Duties Over Voucher Issuance - WIC (03-2)

We noted a general lack of segregation of duties over the voucher issuance process. All the nursing staff had the same level of access to all computer screens necessary to create a file, authorize WIC voucher issuance, and print/issue vouchers. Given this condition, the current level of password security was not adequate to detect errors or irregularities.

Resolution

The Lincoln, Lyon, Murray and Pipestone Public Health Services follows the requirements set forth by the Minnesota WIC Program, as indicated in the Minnesota Operations Manual.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

05-1 Depository Pledge Agreement

The Depository Pledge Agreements with Minnwest Bank and Wells Fargo Bank generally state that, in the event of default by the bank, the agency is required to give written notice of at least three business days so the bank has time to cure the default.

Minn. Stat. § 118A.03, subd. 4, states: “The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged.”

We recommend that the Health Services review this security agreement to ensure that it is consistent with the default language of Minn. Stat. § 118A.03, subd. 4, and that the required language is included.

Client’s Response:

A letter from the Health Services’ Administrator will be sent to both institutions requesting an amendment to the pledge agreement or a new agreement so as to comply with statutes. Copies of the letters will be provided to the Office of the State Auditor.

05-2 Depository Pledge Agreement

The Health Services does not have a Depository Pledge Agreement with State Bank of Taunton.

We recommend that the Health Services execute a security agreement with the State Bank of Taunton that is consistent with the language of Minn. Stat. § 118A.03.

Client's Response:

The Health Services' Administrator will request a Depository Pledge Agreement via letter with Minnesota statute enclosed. A copy of the letter will be provided to the Office of the State Auditor.

05-3

No Perfected Interest in Collateral Assignments

The Health Services did not have documentation demonstrating that it had a perfected interest in pledged collateral with State Bank of Taunton. In a Federal Court decision, the Court ruled that if a municipality fails to perfect a security interest under federal law, its right to such collateral in the event of default is not enforceable. Minn. Stat. § 118A.03, subd. 3, requires the Health Services to obtain an assignment of pledged collateral equal to "at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day," in excess of federal deposit insurance.

The Health Services is not complying with the collateral requirement unless it obtains an enforceable assignment of pledged collateral. To obtain an enforceable assignment under federal law (12 U.S.C. § 1823(e)), the Health Services must obtain a written assignment of collateral which is approved by the depository bank's Board of Directors or loan committee and is thereafter a continuous official record of the bank.

We recommend that the Health Services obtain the documentation from the State Bank of Taunton indicating it has perfected a security interest in pledged collateral.

Client's Response:

The Health Services' Administrator will request documentation to comply with statute. A copy of the letter will be provided to the Office of the State Auditor.

05-4

Broker's Statement

The Health Services did not obtain a broker's statement from Primevest Financial Services before transacting business with them.

According to Minn. Stat. § 118A.04, subd. 9(c), “A broker must acknowledge annually receipt of the statement of investment restrictions in writing and agree to handle the government entity’s account in accordance with these restrictions. A government entity may not enter into a transaction with a broker until the broker has provided this written agreement to the government entity.” Since Primevest makes investment decisions for the Health Services by procuring investments for them, a broker’s statement should have been obtained.

We recommend that the Health Services comply with Minn. Stat. § 118A.04, subd. 9(c).

Client’s Response:

Prior to maturity date of investments, a request was made to the broker to provide principal and the interest earned. Upon receipt of funds, the Health Services will reinvest in certificates of deposit from a local bank. There are no plans to use the broker’s services in the future.

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

05-5 Grant Accounting

We were unable to substantiate all Maternal and Child Health Grant expenditures included in grant reports submitted to the Minnesota Department of Health for the 2004 and 2005 grant years, and the reports were not completed correctly. The 2003 and 2004 carryovers of prior year funds were not reported on the subsequent year grant reports. The Health Services also did not provide the correct amount of matching funds in 2004 or 2005. As of December 31, 2005, there was \$29,492 of revenue from grant years 2003 through 2005 that had not been spent by the Health Services, including carryovers from prior years that were not accounted for. Prior year grant funds can only be carried over until June 30 of the following year and then should be returned to the Minnesota Department of Health if not spent.

All expenditures claimed on grant reports should be supported, and the Health Services should match the correct amounts as required by the grant agreement.

We recommend the Minnesota Department of Health be contacted to determine the amount of funds that need to be repaid.

Client's Response:

The Health Services' Administrator will communicate with the appropriate Minnesota Department of Health contact to determine the funds to be repaid. When that amount is determined, funds will be repaid to the Minnesota Department of Health.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

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

Some of the issues that the Health Services Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the Health Services Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;

- if OPEB are being provided, and the Health Services Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Health Services' Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the Health Services Board will have to decide whether to hire an actuary.

If applicable for the Lincoln, Lyon, Murray and Pipestone Public Health Services, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2007 and 2008, respectively.



STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON
STATE AUDITOR

REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Health
Lincoln, Lyon, Murray and Pipestone Public Health Services

We have audited the financial statements of the Lincoln, Lyon, Murray and Pipestone Public Health Services as of and for the years ended December 31, 2004 and 2005, and have issued our report thereon dated July 20, 2006. 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, the Lincoln, Lyon, Murray and Pipestone Public Health Services complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 05-1 through 05-4.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: July 20, 2006