

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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

YEAR ENDED DECEMBER 31, 2004

## **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, Investment and Finance** - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

**Year Ended December 31, 2004**



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

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

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

ORGANIZATION  
DECEMBER 31, 2004

<u>Community Health Board</u>	<u>Position</u>	<u>County</u>
Dr. Richard Kastner	Chair	Grant
Charles Foss	Member	Grant
Jeanne Olson	Member	Pope
Larry Kittelson	Member	Pope
Steven Sherstad	Member	Stevens
Robert Stevenson	Member	Stevens
Dean Gallup	Vice Chair	Traverse
Gerald Kaus	Member	Traverse

<u>Advisory Committee</u>	<u>Position</u>	<u>County</u>
Dr. Richard Kastner	Member	Grant
Deb Hengel	Member	Grant
Jeanne Olson	Member	Pope
Arlis Fettig	Member	Pope
Steven Sherstad	Chair	Stevens
Karla Van Moorlehem	Member	Stevens
Cheri Rikimoto	Vice Chair	Traverse
Dean Gallup	Member	Traverse

Co-Administrators

Betty Windom-Kirsch, Stevens Traverse Public Health

Sharon Braaten, Pope County Public Health

Fiscal Officer

Karen Folkens

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# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON  
STATE AUDITOR

### INDEPENDENT AUDITOR'S REPORT

Community Health Board  
Mid-State Community Health Services

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Mid-State Community Health Services as of and for the year ended December 31, 2004, which collectively comprise Mid-State Community Health Services' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mid-State Community Health Services' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Mid-State Community Health Services as of December 31, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, Mid-State Community 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 year ended December 31, 2004. These statements result in a change in the format and content of the basic financial statements.

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

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: November 23, 2005

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

December 31, 2004

(Unaudited)

Mid-State Community Health Services (Mid-State) Management's Discussion and Analysis (MD&A) provides an overview of the Mid-State's financial activities for the fiscal year ended December 31, 2004. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

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

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the basic financial statements. Mid-State's basic financial statements consist of two statements that combine government-wide financial statements and fund financial statements, a budgetary comparison statement, and notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

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

The third column of each of the first two statements presents the governmental activities Statement of Net Assets and the Statement of Activities, which provide information about the activities of Mid-State as a whole and present a longer-term view of its finances. These columns tell how these services were financed in the short term as well as what remains for future spending. These columns include all of the assets and liabilities of Mid-State. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

## FINANCIAL ANALYSIS

### Net Assets

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percentage Change (%)</u>
Assets				
Current and other assets	\$ 219,336	(1)	(1)	(1)
Capital assets	<u>2,554</u>	(1)	(1)	(1)
Total Assets	<u>\$ 221,890</u>			
Liabilities				
Current liabilities	<u>\$ 137,923</u>	(1)	(1)	(1)
Net Assets				
Invested in capital assets	\$ 2,554	(1)	(1)	(1)
Unrestricted	<u>81,413</u>	(1)	(1)	(1)
Total Net Assets	<u>\$ 83,967</u>			

### Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percentage Change (%)</u>
Revenues				
Intergovernmental	\$ 704,701	(1)	(1)	(1)
Miscellaneous	<u>57,851</u>	(1)	(1)	(1)
Total Revenues	<u>\$ 762,552</u>			
Expenses				
Administration	\$ 31,531	(1)	(1)	(1)
Intergovernmental	654,334	(1)	(1)	(1)
Depreciation	901	(1)	(1)	(1)
Miscellaneous	<u>65,273</u>	(1)	(1)	(1)
Total Expenses	<u>\$ 752,039</u>			
Change in Net Assets	<u>\$ 10,513</u>			

(1) Mid-State did not restate its 2003 financial statements in this first year of implementation of GASB Statement 34. Comparative information will be provided in future years.

## CAPITAL ASSETS ADMINISTRATION

### Capital Assets (Net of Depreciation)

	<u>2004</u>	<u>2003</u>
Equipment	\$ 4,507	\$ 4,507
Less: accumulated depreciation	<u>1,953</u>	<u>1,052</u>
Equipment	<u>\$ 2,554</u>	<u>\$ 3,455</u>

There were no additions or deletions of capital assets in 2004.

### CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

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

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## **BASIC FINANCIAL STATEMENTS**

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

**EXHIBIT 1**

**GENERAL FUND BALANCE SHEET AND  
STATEMENT OF NET ASSETS OF GOVERNMENTAL ACTIVITIES  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
DECEMBER 31, 2004**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b><u>Assets</u></b>			
Cash with County Treasurer	\$ 125,703	\$ -	\$ 125,703
Due from other governments	93,633	-	93,633
Depreciable capital assets, net	-	2,554	2,554
<b>Total Assets</b>	<b>\$ 219,336</b>	<b>\$ 2,554</b>	<b>\$ 221,890</b>
<b><u>Liabilities</u></b>			
Accounts payable	\$ 13,858	\$ -	\$ 13,858
Due to other governments	114,683	-	114,683
Deferred revenue - unavailable	981	(981)	-
Deferred revenue - unearned	9,382	-	9,382
<b>Total Liabilities</b>	<b>\$ 138,904</b>	<b>\$ (981)</b>	<b>\$ 137,923</b>
<b><u>Fund Balance/Net Assets</u></b>			
<b>Fund Balance</b>			
Unreserved			
Undesignated	80,432	\$ (80,432)	
<b>Total Liabilities and Fund Balance</b>	<b>\$ 219,336</b>		
<b>Net Assets</b>			
Invested in capital assets		\$ 2,554	\$ 2,554
Unrestricted		81,413	81,413
<b>Total Net Assets</b>		<b>\$ 83,967</b>	<b>\$ 83,967</b>
<b>Reconciliation of Governmental Fund Balance to Net Assets</b>			
Fund Balance - General Fund			\$ 80,432
Capital assets are reported on the Statement of Net Assets but not on the Fund Balance Sheet.			2,554
Long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			981
<b>Net Assets - Governmental Activities</b>			<b>\$ 83,967</b>

**LINCOLN, LYON, & MURRAY HUMAN SERVICES BOARD  
MARSHALL, MINNESOTA**

**EXHIBIT 2**

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>General Fund</b>	<b>Reconciliation</b>	<b>Governmental Activities</b>
<b>Revenues</b>			
Intergovernmental	\$ 9,230,255	\$ -	\$ 9,230,255
Charges for services	175,475	-	175,475
Investment earnings	94,522	-	94,522
Miscellaneous	488,878	-	488,878
	<b>\$ 9,989,130</b>	<b>\$ -</b>	<b>\$ 9,989,130</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
<b>Human services</b>			
Income maintenance	\$ 2,886,743	\$ (5,509)	\$ 2,881,234
Social services	7,740,039	(8,263)	7,731,776
	<b>\$ 10,626,782</b>	<b>\$ (13,772)</b>	<b>\$ 10,613,010</b>
<b>Net Change in Fund Balance/Net Assets</b>	<b>\$ (637,652)</b>	<b>\$ 13,772</b>	<b>\$ (623,880)</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>5,797,784</b>	<b>(253,619)</b>	<b>5,544,165</b>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 5,160,132</b>	<b>\$ (239,847)</b>	<b>\$ 4,920,285</b>

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

**Net Change in Fund Balance** **\$ (637,652)**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures	\$ 104,822	
Current year depreciation expense	(75,785)	29,037

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

(Increase) decrease in compensated absences payable		(15,265)
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<b>Change in Net Assets of Governmental Activities</b>		<b>\$ (623,880)</b>
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**LINCOLN, LYON, & MURRAY HUMAN SERVICES BOARD  
MARSHALL, MINNESOTA**

**EXHIBIT 3**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGETARY COMPARISON  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 9,966,445	\$ 9,966,445	\$ 9,230,255	\$ (736,190)
Charges for services	161,500	161,500	175,475	13,975
Interest on investments	130,000	130,000	94,522	(35,478)
Miscellaneous	333,500	333,500	488,878	155,378
<b>Total Revenues</b>	<b>\$ 10,591,445</b>	<b>\$ 10,591,445</b>	<b>\$ 9,989,130</b>	<b>\$ (602,315)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 2,812,100	\$ 2,812,100	\$ 2,886,743	\$ (74,643)
Social services	7,779,345	7,779,345	7,740,039	39,306
<b>Total Expenditures</b>	<b>\$ 10,591,445</b>	<b>\$ 10,591,445</b>	<b>\$ 10,626,782</b>	<b>\$ (35,337)</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (637,652)</b>	<b>\$ (637,652)</b>
<b>Fund Balance - January 1</b>	<b>5,797,784</b>	<b>5,797,784</b>	<b>5,797,784</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,797,784</b>	<b>\$ 5,797,784</b>	<b>\$ 5,160,132</b>	<b>\$ (637,652)</b>

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

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

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1. Summary of Significant Accounting Policies

Mid-State Community Health Services (Mid-State) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by Mid-State are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- a Management's Discussion and Analysis (MD&A) section providing an analysis of Mid-State's overall financial position and results of operations, and
- financial statements prepared using full accrual accounting for all Mid-State activities.

These and other changes are reflected in the accompanying financial statements (including the notes to financial statements). Mid-State has elected to implement all provisions of the statement in the current year.

A. Financial Reporting Entity

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

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

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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

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

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

B. Basic Financial Statements

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

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

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

C. Measurement Focus and Basis of Accounting

The governmental activities columns are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund columns (General Fund) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Mid-State considers all revenues to be available if collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments, which are recognized as expenditures to the extent that they have matured. When both restricted and unrestricted resources are available for use, it is Mid-State's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets

1. Assets

Due From/To Other Governments

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

Capital Assets and Depreciation

Capital assets, which consist of three computers, are reported in the governmental activities column in the government-wide financial statements. Mid-State defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost.

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

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

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

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1. Summary of Significant Accounting Policies

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

2. Liabilities

Deferred Revenue

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

E. Reclassification of Fund Equity to Net Assets

Mid-State has implemented GASB Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. Implementation of this new standard required Mid-State to change the format and content of the financial statements. This change must be considered when comparing financial statements of this report with those of prior reports. Implementation of the new standard required the following restatement of fund balance to net assets.

	<u>2004</u>
Fund Balance - January 1, 2004	\$ 69,999
Capital assets, net of depreciation	<u>3,455</u>
Net Assets - January 1, 2004	<u>\$ 73,454</u>

2. Detailed Notes on Accounts

A. Assets

Cash Deposits

As of December 31, 2004, Mid-State had \$125,703 on deposit with Stevens County. Cash transactions are administered by the Stevens County Auditor/Treasurer, who is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to deposit cash in financial

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

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2. Detailed Notes on Accounts

A. Assets

Cash Deposits (Continued)

institutions designated by the County Board. All funds of Stevens County are pooled. Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. Minnesota statutes require that all county deposits be covered by insurance, surety bond, or collateral, a requirement with which the County was in compliance at December 31, 2004.

Due From Other Governments

The amounts due from other governments at December 31, 2004 were:

Federal indirect grants	\$	41,646
State grants		33,172
Counties		18,815
		18,815
Total	\$	93,633

Mid-State did not have any due from other governments scheduled to be collected beyond one year.

Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

		Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated	\$	4,507	\$ -	\$ -	\$ 4,507
Less: accumulated depreciation		1,052	901	-	1,953
Total Capital Assets, net	\$	3,455	\$ 901	\$ -	\$ 2,554

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

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2. Detailed Notes on Accounts (Continued)

B. Liabilities

Deferred Revenue

Unearned deferred revenue in the amount of \$9,382, consists of the Public Health Preparedness grant that has been received but not earned. Deferred revenue of \$981 in connection with the Women, Infants, and Children grant was earned but not available to liquidate liabilities of the current period and is reported in the General Fund.

3. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

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

B. Risk Management

Mid-State is exposed to various risks of loss related to torts and errors and omissions or natural disasters. To cover these risks, Mid-State is a member of the Minnesota Counties Insurance Trust (MCIT), a public entity risk pool, and carries commercial insurance. Mid-State retains the risk for the deductible portions of its insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year or settlements that exceeded insurance coverage for the past three years.



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PATRICIA ANDERSON  
STATE AUDITOR

## REPORT ON MINNESOTA LEGAL COMPLIANCE

Community Health Board  
Mid-State Community Health Services

We have audited the financial statements of the governmental activities and the General Fund of the Mid-State Community Health Services as of and for the year ended December 31, 2004, and have issued our report thereon dated November 23, 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories, except that we did not test for compliance in contracting and bidding and public indebtedness because the Mid-State Community Health Services did not do any contracting in 2004 and has no debt.

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

This report is intended solely for the information and use of management and the Mid-State Community Health Board 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: November 23, 2005