

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA

FOR THE 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.

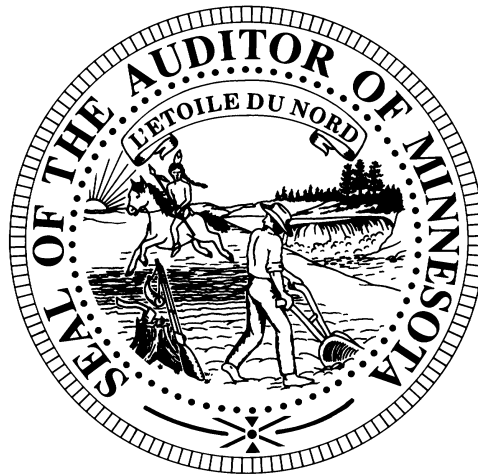
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**STEVENS TRAVERSE GRANT
PUBLIC HEALTH
MORRIS, MINNESOTA**

**For the Year Ended
December 31, 2004**



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

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2004

	<u>Position</u>	<u>County</u>	<u>Term Expires</u>
Joint Public Health Board			
Dean Gallup	Member	Traverse	December 31, 2004
David Naatz	Member	Traverse	December 31, 2006
Norma Holtz	Vice Chair	Traverse	December 31, 2008
Herb Kloos	Member	Stevens	December 31, 2006
Larry Sayre	Chair	Stevens	December 31, 2008
Robert Stevenson	Member	Stevens	December 31, 2006
Charles Foss	Member	Grant	December 31, 2004
Vernell Wagner	Member	Grant	December 31, 2008
Ronald Woltjer	Member	Grant	December 31, 2006
Advisory Committee			
Jenell Staples	Chair		June 2005
Dr. Arthur Van Vranken	Vice Chair		June 2005
Sue Dieter	Member		June 2005
Melody Gruby	Member		June 2005
Colleen Violet	Member		April 2005
Shirley Sampson	Member		July 2005
Arline Grob	Member		July 2005
Barb Amundson	Member		July 2005
Joint Public Health Administrator			
Carol Meissner (resigned position August 31, 2004)			
Betty Windom-Kirsch (assumed position September 20, 2004)			Indefinite

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STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Stevens Traverse Grant Joint Public Health Board
Morris, Minnesota

We have audited the accompanying basic financial statements of Stevens Traverse Grant Public Health as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of Stevens Traverse Grant Public Health's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Stevens Traverse Grant Public Health at December 31, 2004, and the results of its operations and its cash flows 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, the Stevens Traverse Grant Joint Public Health Board 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 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: January 20, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

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

The Stevens Traverse Grant Public Health Service's (Health Service) Management's Discussion and Analysis (MD&A) provides an overview of the Health Service'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 Health Service's financial statements.

The Health Service is a joint powers enterprise operation of Grant, Stevens, and Traverse Counties created to provide community health care for the residents of the tri-county area.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The Health Service's 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 Service's financial activities and consist of the following:

- The statement of net assets compares assets and liabilities to give an overall view of the financial health of the Health Service.
- The statement of revenues, expenses, and changes in net assets provides information on an aggregate view of the Health Service's operations. 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 Service.

FINANCIAL ANALYSIS

Net Assets

	2004	2003	Increase (Decrease)	Percentage Change (%)
Assets				
Current and other assets	\$ 662,219	\$ 540,994	\$ 121,225	22.40
Capital assets	11,099	10,186	913	8.96
Total Assets	\$ 673,318	\$ 551,180	\$ 122,138	22.16
Liabilities				
Current liabilities	\$ 26,605	\$ 27,285	\$ (680)	(2.49)
Noncurrent liabilities	50,010	29,467	20,543	69.72
Total Liabilities	\$ 76,615	\$ 56,752	\$ 19,863	35.00
Net Assets				
Invested in capital assets	\$ 11,099	\$ 10,186	\$ 913	8.96
Unrestricted	585,604	484,242	101,362	20.93
Total Net Assets	\$ 596,703	\$ 494,428	\$ 102,275	20.69

Changes in Net Assets

	2004	2003	Increase (Decrease)	Percentage Change (%)
Operating Revenues				
Charges for services	\$ 444,805	\$ 477,470	\$ (32,665)	(6.84)
Intergovernmental	342,656	176,829	165,827	93.78
Miscellaneous	40,671	26,155	14,516	55.50
Total Operating Revenues	\$ 828,132	\$ 680,454	\$ 147,678	21.70
Nonoperating Revenues				
Interest income	4,060	2,944	1,116	37.91
Transfers from member counties	356,687	179,789	176,898	98.39
Total Revenues	\$ 1,188,879	\$ 863,187	\$ 325,692	37.73
Operating Expenses				
Personal services	\$ 734,753	\$ 619,241	\$ 115,512	18.65
Nursing services	135,373	126,871	8,502	6.70
Supplies	64,168	23,375	40,793	174.52
Maternal and child health	29,260	16,936	12,324	72.77
Women, Infants, and Children program	58,064	41,315	16,749	40.54
Title III-B aging	39,056	41,941	(2,885)	(6.88)
Immunization action program	-	350	(350)	(100.00)
Tobacco-Free Communities for Children program	19,780	-	19,780	100.00
Depreciation	6,150	7,360	(1,210)	(16.44)
Total Expenses	\$ 1,086,604	\$ 877,389	\$ 209,215	23.85
Change in Net Assets	\$ 102,275	\$ (14,202)	\$ 116,477	820.15

(Unaudited)

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CAPITAL ASSETS ADMINISTRATION

Capital Assets (Net of Depreciation)

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percentage Change (%)</u>
Furniture and equipment	\$ 11,099	\$ 10,186	\$ 913	8.96

The only additions exceeding the Health Service's capitalization policy during the year were for purchases of staff computer systems and memory upgrades.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

EXHIBIT 1

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

Assets

Current Assets

Cash in custody of Stevens County Treasurer	\$ 483,072
Petty cash and change funds	25
Accounts receivable	17,875
Due from other governments	111,247
	<hr/>
Total current assets	\$ 612,219

Noncurrent Assets

Advance to other governments (Note 5)	\$ 50,000
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Capital Assets

Furniture and equipment	\$ 52,472
Less: accumulated depreciation	(41,373)
	<hr/>

Net capital assets	\$ 11,099
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Total noncurrent assets	\$ 61,099
--------------------------------	------------------

Total Assets	\$ 673,318
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Liabilities

Current Liabilities

Accounts payable	\$ 11,841
Salaries payable	4,798
Compensated absences payable	7,746
Due to other governments	2,220
	<hr/>

Total current liabilities	\$ 26,605
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Noncurrent liabilities

Compensated absences	50,010
	<hr/>

Total Liabilities	\$ 76,615
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Net Assets

Invested in capital assets	\$ 11,099
Unrestricted	585,604
	<hr/>
Total Net Assets	\$ 596,703

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

EXHIBIT 2

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

Operating Revenues	
Charges for services	<u>\$ 444,805</u>
Intergovernmental	
Minnesota Department of Health	
Community health services	\$ 96,651
Family planning	57,857
Tobacco-Free Communities for Children program	19,780
Educate Now Babies Later program	4,704
Federal grants	
Women, Infants, and Children program	58,064
Title III-B aging grants	15,811
Temporary assistance for needy families	12,059
Maternal and child health	29,260
Immunization action program	1,800
Centers for disease control	34,694
Educate Now Babies Later program	<u>11,976</u>
Total intergovernmental revenue	<u>\$ 342,656</u>
Miscellaneous	<u>\$ 40,671</u>
Total Operating Revenues	<u>\$ 828,132</u>
Operating Expenses	
Personal services	\$ 734,753
Nursing services	135,373
Supplies	64,168
Women, Infants, and Children program	58,064
Title III-B aging grant	39,056
Maternal and child health	29,260
Tobacco-Free Communities for Children program	19,780
Depreciation	<u>6,150</u>
Total Operating Expenses	<u>\$ 1,086,604</u>
Operating Income (Loss)	<u>\$ (258,472)</u>
Nonoperating Revenues (Expenses)	
Interest income	\$ 4,060
Transfers from member counties	<u>356,687</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 360,747</u>
Change in Net Assets	<u>\$ 102,275</u>
Net Assets - January 1	<u>494,428</u>
Net Assets - December 31	<u>\$ 596,703</u>

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

EXHIBIT 3

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

Cash Flows from Operating Activities	
Receipts from customers	\$ 488,005
Payments to suppliers	(233,634)
Payments to employees	(828,783)
	(574,412)
Net cash provided by (used in) operating activities	\$ (574,412)
Cash Flows from Noncapital Financing Activities	
Intergovernmental receipts	\$ 330,978
Transfers from member counties	356,687
	687,665
Net cash provided by (used in) noncapital financing activities	\$ 687,665
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	\$ (7,063)
	(7,063)
Cash Flows from Investing Activities	
Interest receipts	\$ 3,584
	3,584
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 109,774
Cash and Cash Equivalents at January 1	373,323
	373,323
Cash and Cash Equivalents at December 31	\$ 483,097
	483,097
Reconciliation of operating income to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (258,472)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	\$ 6,150
Grants reported as operating revenues	(342,656)
Changes in assets and liabilities	
Accounts receivable	(3,490)
Due from other governments	4,193
Accounts payable	290
Salaries payable	(2,331)
Due to other governments	(616)
Compensated absences - current	1,977
Compensated absences - long-term	20,543
	20,543
Total adjustments	\$ (315,940)
Net Cash Provided by (Used in) Operating Activities	\$ (574,412)
	(574,412)

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The Stevens Traverse Grant Public Health's 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 (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Board has the option to apply FASB pronouncements issued after that date, the Board has chosen not to do so. The more significant accounting policies established in GAAP and used by the Board are discussed below.

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 Service's 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 statements in the current year.

A. Financial Reporting Entity

Stevens Traverse Public Health was established pursuant to Minn. Stat. ch. 145A and a joint powers agreement effective July 1, 1995. Effective July 1, 2004, Grant County Public Health formally joined the organization resulting in the new entity, Stevens Traverse Grant Public Health. The Stevens Traverse Grant Joint Public Health Board consists of nine members--comprised of three Commissioners from each of the respective counties.

The primary functions of Stevens Traverse Grant Public Health are to prevent illness and to promote efficiency and economy in the delivery of community health services.

Stevens Traverse Grant Public Health is not a component unit of any of the three member counties, nor does it have any component units. The Health Service's financial statements will not be included in any member county's financial statements.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Stevens County, as an agent, reports the cash transactions of Stevens Traverse Grant Public Health in an agency fund on its annual financial statements.

B. Basis of Presentation

The Health Service's operations are accounted for as an enterprise fund, with a set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. Enterprise funds are used to account for (1) operations that provide a service to citizens financed primarily by charging users for that service, and (2) activities where the periodic measurement of net income is considered appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Basis of Accounting

Accounting records are maintained on the accrual basis, where revenues are recorded when earned and expenses are recorded when liabilities are incurred.

D. Budget

Stevens Traverse Grant Public Health adopts an annual budget prepared on the accrual basis. The budget is approved by the Stevens Traverse Grant Joint Public Health Board and submitted to all member counties. The County Board of each county represented approves or disapproves its portion of the budget.

E. Assets, Liabilities, and Net Assets

1. Assets

Cash and Investments

The Health Service's cash and investments are part of the pooled investments held by the Stevens County Treasurer. Minn. Stat. §§ 118A.02 and 118A.04 authorize Stevens County to designate a depository for public funds and to invest in certificates of deposit. Minnesota statutes require that all county deposits be covered by insurance, surety bond, or collateral. At December 31, 2004, Stevens County was in compliance with Minnesota statutes regarding its deposits.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets

1. Assets

Cash and Investments (Continued)

For the purposes of the Statement of Cash Flows, cash and cash equivalents include cash in custody of the County Treasurer and petty cash and change funds.

Accounts Receivable

The Health Service provides services to certain clients covered by various third-party reimbursement programs at varying rates, generally below established charges. Variances from established charges are recorded on the basis of preliminary estimates of the amounts to be received from third parties and adjusted in future periods as final settlements are determined.

Capital Assets and Depreciation

Capital assets are recorded at cost subject to the Health Service's capitalization policy of \$500. Major renewals and improvements are charged to the property accounts, while maintenance and repairs that do not improve or extend the lives of the assets are expensed currently. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets:

Building	25 years
Furniture and equipment	3 - 20 years

2. Liabilities

Vacation and Sick Leave

Under the union contract, employees are granted vacation in varying amounts based on their length of service. Vacation leave accrual varies from 12 to 33 days per year. Sick leave accrual is 12 days per year.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets

2. Liabilities

Vacation and Sick Leave (Continued)

Unused accumulated vacation and vested sick leave are paid to employees upon termination. Unvested vacation and sick leave, approximately \$68,000 at December 31, 2004, is available to employees in the event of illness-related absences and is not paid to them at termination.

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 transactions are recognized as revenue when the exchange occurs.

Intergovernmental

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 Service perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met, usually when the corresponding expense 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.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

F. Revenues and Expenses

1. Revenues (Continued)

Exchange Transactions

Other revenues, such as charges for services and investment income, are recognized as revenue when earned.

Operating and Nonoperating Revenues

The Health Service distinguishes operating revenues from nonoperating revenues. Operating revenues generally result from providing services and producing and delivering goods in connection with an activity's principal ongoing operations. Operating revenues include charges for services and intergovernmental operating grants since they constitute the Health Service's ongoing operations. All revenues not meeting this definition are reported as nonoperating revenues.

2. Expenses

Stevens Traverse Grant Public Health recognizes expenses, including compensated absences, when incurred. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets.

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

2. Detailed Notes

A. Assets

1. Due From Other Governments

The following amounts are due from other governments at December 31, 2004.

Federal	\$	32,982
State		53,211
Local		25,054
Total	\$	111,247

Stevens Traverse Grant Public Health did not have any receivables scheduled to be collected beyond one year.

2. Capital Assets

A summary of the changes in capital asset accounts for the year ended December 31, 2004, is:

	Balance January 1, 2004	Depreciation Expense	Additions	Deletions	Balance December 31, 2004
Capital assets, depreciated					
Furniture and equipment	\$ 45,409	\$ -	\$ 7,063	\$ -	\$ 52,472
Less: accumulated depreciation	(35,223)	(6,150)	-	-	(41,373)
Net Capital Assets	\$ 10,186	\$ (6,150)	\$ 7,063	\$ -	\$ 11,099

B. Liabilities

Long-Term Debt

The following is a summary of the changes in long-term debt of Stevens Traverse Grant Public Health.

Compensated absences payable - January 1	\$	35,236
Change in compensated absences		22,520
Compensated absences payable - December 31	\$	57,756
Due Within One Year	\$	7,746

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

3. Pension Plans

A. Plan Description

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

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

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 of service and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

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

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

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

3. Pension Plans

A. Plan Description (Continued)

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 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 Public Health Agency makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. The Health Service is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53

The Health Service's contributions for the years ending December 31, 2004, 2003, and 2002, were \$32,288, \$27,717, and \$24,262, respectively, equal to the contractually required contributions for each year as set by state statute.

4. Risk Management

Stevens Traverse Grant Public Health 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. To cover these risks, the Health Service is a member of the Minnesota Counties Insurance Trust (MCIT). The Health Service 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 previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

4. Risk Management (Continued)

The Health Service's risk of loss associated with injuries to employees is covered by membership in the MCIT Workers' Compensation Division. The risk associated with the Health Service operation has not been separately identified.

5. Summary of Significant Contingencies and Other Items

Prime West Central County-Based Purchasing Initiative

The Prime West Central County-Based Purchasing Initiative was established in December 1998 by a joint powers agreement among Stevens, Traverse, and eight other counties under the authority of Minn. Stat. § 471.59. The purpose of this agreement is to plan and administer a multi-county, county-based purchasing program for medical assistance and general assistance medical care services and other health care programs as authorized by Minn. Stat. § 256B.692.

Control of the Prime West Central County-Based Purchasing Initiative is vested in a Joint Powers Board, comprising one commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the County he or she represents. In the event of termination of the joint powers agreement, all property purchased or owned pursuant to this agreement shall be sold and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share.

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties, if necessary, to cover operational costs. In 1999, Steven Traverse Public Health provided \$50,000 in the form of an initial start-up loan to the Prime West Central County-Based Purchasing Initiative. Stevens Traverse Grant Public Health did not contribute any funds in 2004.

Douglas County acts as fiscal agent for the Prime West Central County-Based Purchasing Initiative and reports the cash transactions as an investment trust fund on its financial statements. Complete financial information can be obtained from its administrative office at Prime West Health Systems, Douglas County Courthouse, 305 - 8th Avenue West, Alexandria, Minnesota 56308.

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

03-1 Accounts Receivable Trial Balance

Stevens Traverse Grant Public Health uses CHAMPS software to track accounts receivable for services billed to various pay sources. An update to the CHAMPS system was installed in September 2003, changing the reports available for tracking the balances of receivables. The new "Trial Balance and Aging by Pay Source" report contains several errors resulting in negative balances. Stevens Traverse Grant Public Health has not been able to determine the source of the problem and agrees that the balance is not accurate.

Due to the difficulties of auditing receivables during the prior audit, Stevens Traverse Grant Public Health retained copies of billings after receiving payment to support amounts listed on the trial balance. Although reports generated using the CHAMPS software continue to be erroneous, this additional effort allowed receivables to be verified for the current audit.

We continue to recommend Stevens Traverse Grant Public Health work with the CHAMPS software vendor to resolve the problems noted.

Client's Response:

Stevens Traverse Grant Public Health has worked with the CHAMPS software during 2005, and they have solved some of the CHAMPS reporting problems so the 2005 reports are accurate.

ITEM ARISING THIS YEAR

04-1 Account Activity Report Coding Errors

Stevens County acts as the fiscal agent for Stevens Traverse Grant Public Health and Mid-State Community Health Services (Mid-State). Account activity reports provided by Stevens County for the Health Service were not sufficiently detailed to analyze the Health Service's grant revenues, especially those received through Mid-State. In addition, activity between the Health Service and Mid-State was not correctly coded.

The Health Service maintains subsidiary records to track receipts from Mid-State by county and program. These subsidiary records were not reconciled to the account activity reports provided by Stevens County nor were they provided to us.

We recommend that Stevens Traverse Grant Public Health work more closely with Mid-State Community Health Services and Stevens County to ensure proper coding of receipts and disbursements within the account activity report.

Client Response:

The Mid-State checks that are cut to Stevens Traverse Grant Public Health require splitting of the funds to the appropriate county program according to the exact amount of expenditures. The auditing staff was new to the Stevens Traverse Grant Public Health this year. Because the audit was not completed on site, much of the tracking data was not available to them. The cash receipts journal and accounts receivable ledger show the split of checks from Mid-State to the appropriate county and program as it appears on the account activity.

The Stevens Traverse Grant Public Health does not consider this to be a problem but will seriously study the audit staff analysis and make account activity breakout of Mid-State payments between counties more clear.

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, like 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 Stevens Traverse Grant Joint Public Health Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the Stevens Traverse Grant Joint Public Health Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the Stevens Traverse Grant Joint Public Health Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Stevens Traverse Grant Joint Public Health Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the Stevens Traverse Grant Joint Public Health Board will have to decide whether to hire an actuary.

If applicable for Stevens Traverse Grant Public Health, GASB Statements 43 and 45 would be implemented for the years ending December 31, 2008 and 2009, respectively.

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PATRICIA ANDERSON
STATE AUDITOR

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Stevens Traverse Grant Joint Public Health Board
Morris, Minnesota

We have audited the basic financial statements of Stevens Traverse Grant Public Health as of and for the year ended December 31, 2004, and have issued our report thereon dated January 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

The management of Stevens Traverse Grant Public Health is responsible for establishing and maintaining internal control. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered Stevens Traverse Grant Public Health's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant

deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Stevens Traverse Grant Public Health's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 03-1 and 04-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe neither of the reportable conditions indicated above is a material weakness.

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories, except that we did not test for compliance in contracting and bidding and public indebtedness because Stevens Traverse Grant Public Health did not let any contracts and has no debt.

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

This report is intended solely for the information and use of the Stevens Traverse Grant Joint Public Health Board 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: January 20, 2006