

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

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

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

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

Year Ended December 31, 2015



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

This page was left blank intentionally.

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

TABLE OF CONTENTS

	<u>Exhibit</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 Position	1	9
Statement of Revenues, Expenses, and Changes in Net Position	2	10
Statement of Cash Flows	3	11
Notes to the Financial Statements		12
Required Supplementary Information		
PERA General Employees Retirement Fund		
Schedule of Proportionate Share of Net Pension Liability	A-1	32
Schedule of Contributions	A-2	32
Management and Compliance Section		
Schedule of Findings and Recommendations		33
Communication of Significant Deficiencies and/or Material Weaknesses in Internal Control Over Financial Reporting and Other Matters		35
Independent Auditor's Report on Minnesota Legal Compliance		37

This page was left blank intentionally.

This page was left blank intentionally.

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

ORGANIZATION
DECEMBER 31, 2015

	<u>Position</u>	<u>County</u>	<u>Term Expires</u>
Community Health Board			
Karen Ahmann	Vice Chair	Mahnomen	2015
James Kochmann	Member	Mahnomen	2015
Steven Bommersbach	Chair	Norman	2015
Marvin Gunderson	Member	Norman	2015
Eldon Hetland	Secretary	Norman	2015
Public Health Nurse Director			
Sarah Kjono			Indefinite

This page was left blank intentionally.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

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)

INDEPENDENT AUDITOR'S REPORT

Norman-Mahnomen Board of Health
Norman-Mahnomen Public Health
Ada, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Norman-Mahnomen Public Health as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Norman-Mahnomen Public Health's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Norman-Mahnomen Public Health as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1.E. to the financial statements, in 2015 Norman-Mahnomen Public Health adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 5, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(Unaudited)**

The Management's Discussion and Analysis for Norman-Mahnomen Public Health provides an overview of the agency's financial activities for the fiscal year ended December 31, 2015. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with Norman-Mahnomen Public Health's financial statements.

The Norman-Mahnomen Board of Health is a joint powers enterprise operation of Mahnomen and Norman Counties doing business as Norman-Mahnomen Public Health. The Norman-Mahnomen Board of Health is part of a joint Community Health Services Agency through a delegation agreement with the Polk-Norman-Mahnomen Community Health Board and, as such, is responsible for providing public health services to the residents of Mahnomen and Norman Counties. Offices are located in Ada and Mahnomen. Administrative services are provided through the Ada office.

Norman-Mahnomen Community Health Board joined with Polk County Community Health Board to form the Polk-Norman-Mahnomen Community Health Board effective January 1, 2013. The Norman-Mahnomen Community Health Board was renamed the Norman-Mahnomen Board of Health. Under the new Community Health Board, there exist two separate health departments, Norman-Mahnomen Public Health and Polk County Public Health.

Norman-Mahnomen Public Health is considered a distinct and separate entity from either of the two counties, and financial accountability lies with the Norman-Mahnomen Board of Health and designated staff. The agency is audited as a stand-alone subunit of local government.

Norman-Mahnomen Public Health was a part of Multi-County Nursing Service until Becker County withdrew from the Joint Powers Agreement as of January 1, 2005. Norman and Mahnomen Counties remained as a Joint Powers enterprise organization, changing the name to Norman-Mahnomen Public Health as of January 1, 2005. Under current rules, the population of the two counties is too small to create a stand-alone public health agency, but because the agency already existed, it was allowed to keep the stand-alone status until it joined with Polk County in 2013.

Norman-Mahnomen Public Health appointed a succession planning committee in April 2015 to address the Director's resignation and to address future agency planning. Jamie Hennen resigned from her position in May 2015, and the Board of Health appointed Sarah Kjono as the Interim

Director until she was permanently hired in September 2015. The committee considered different structural and organizational options when planning for the future of the agency. The committee made the recommendation to the County Boards that the agency come in under Norman County as a separate Public Health Department, with Mahnomen County contracting with Norman County for providing public health services. It was decided that this action would take place effective January 1, 2016. This action will dissolve the Norman and Mahnomen Joint Powers Agreement that has been in place since 2005. Norman and Mahnomen counties will still maintain their relationship with Polk County in the Community Health Board.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements of this agency. Norman-Mahnomen Public Health’s basic financial statements consist of two parts: the financial statements and the notes to the financial statements. The Management’s Discussion and Analysis (this section) is required to accompany the basic financial statements as required supplementary information.

The financial statements present different views of the agency’s financial activities and consist of the following:

- The statement of net position compares the assets and liabilities to give an overall view of the financial health of Norman-Mahnomen Public Health.
- The statement of revenues, expenses, and changes in net position provides information on an aggregate view of the agency’s finances. All of each year’s revenues and expenses are taken into account regardless of when the cash is received or paid.
- The statement of cash flows provides sources and uses of cash for Norman-Mahnomen Public Health.

FINANCIAL ANALYSIS

	Net Position			Percent (%) Change
	2015	2014	Increase/ (Decrease)	
Assets				
Current and other assets	\$ 458,963	\$ 442,443	\$ 16,520	3.73
Capital assets	11,370	23,469	(12,099)	(51.55)
Total Assets	<u>\$ 470,333</u>	<u>\$ 465,912</u>	<u>\$ 4,421</u>	0.95
Deferred Outflows of Resources				
Deferred pension outflows	\$ 43,943	\$ -	\$ 43,943	100.00

	2015	2014	Increase/ (Decrease)	Percent (%) Change
Liabilities				
Current liabilities	\$ 30,494	\$ 38,899	\$ (8,405)	(21.61)
Long-term/noncurrent liabilities	326,498	3,784	322,714	8,528.38
Total Liabilities	\$ 356,992	\$ 42,683	\$ 314,309	736.38
Deferred Inflows of Resources				
Deferred pension inflows	\$ 51,692	\$ -	\$ 51,692	100.00
Net Position				
Net investment in capital assets	\$ 11,370	\$ 23,469	\$ (12,099)	(51.55)
Unrestricted	94,222	399,760	(305,538)	(76.43)
Total Net Position, as reported	\$ 105,592	\$ 423,229	\$ (317,637)	(75.05)
Change in accounting principles*		(329,847)		
Net Position, as restated		<u>\$ 93,382</u>		

*This is the first year Norman-Mahnomen Public Health implemented the new pension accounting and financial reporting standards, Governmental Accounting Standards Board (GASB) Statements 68, 71, and 82. Norman-Mahnomen Public Health had to make a prior year change in accounting principles to record Norman-Mahnomen Public Health's net pension liability and related deferred outflows of resources.

Changes in Net Position

	2015	2014	Increase/ (Decrease)	Percent (%) Change
Operating revenues				
Charges for services	\$ 110,587	\$ 135,998	\$ (25,411)	(18.68)
Screenings and outreach	37,809	44,361	(6,552)	(14.77)
Health promotions and clinics	1,825	3,430	(1,605)	(46.79)
School services	32,490	30,819	1,671	5.42
Miscellaneous	38,494	7,246	31,248	431.24
Nonoperating revenues				
Property taxes	177,086	173,614	3,472	2.00
Intergovernmental	349,519	444,828	(95,309)	(21.43)
Interest income	29	18	11	61.11
Total Revenues	\$ 747,839	\$ 840,314	\$ (92,475)	(11.00)
Operating expenses				
Personnel	\$ 531,296	\$ 548,666	\$ (17,370)	(3.17)
Professional services	15,643	15,210	433	2.85
Administrative	44,507	32,909	11,598	35.24
Travel	17,489	17,710	(221)	(1.25)
Materials and supplies	15,284	9,175	6,109	66.58
Equipment rental and repair	8,606	8,237	369	4.48
Rent	15,750	15,750	-	-
Direct costs	66,078	115,408	(49,330)	(42.74)
Depreciation	20,976	10,529	10,447	99.22
Total Expenses	\$ 735,629	\$ 773,594	\$ (37,965)	(4.91)
Increase (Decrease) in Net Position	\$ 12,210	\$ 66,720	\$ (54,510)	81.70

Due to GASB 68, the agency needed to log a liability for future pension payments for the Public Employees Retirement Association. This drastically increased the agency's long-term/noncurrent liabilities.

Due to the shifting of many case management duties over to County Social Service, the charges for services revenue has decreased by \$20,447. The remaining decrease in charges for services is largely due to a decrease in reimbursable family health visits.

Immunization Practices Improvement program revenues decreased in 2015 due to shortness of staffing to complete this task. The decrease in screening and outreach is an accumulation of decreases in PCA Assessments, Lead Screening reimbursements, and dental varnishing services decrease.

Miscellaneous revenue increased by \$20,000 due to funding received from Health Partners, and \$1,800 was received to reimburse for expenses from Tri-Valley. The remaining increase is small grants and revenues that are a one time revenue.

Intergovernmental revenues decreased largely due to the end of the Community Transformation Grant and the Health Information Exchange (HIE) grant, also due to a \$21,145 decrease in Statewide Health Improvement Partnership (SHIP) funding.

Personnel expenses decreased due to the resignation of the Director of the agency, causing administrative expenses to increase due to contracting with Polk County for Community Health Service administrator duties.

The large decrease in direct costs was due to no longer having HIE or SHIP money running through this agency. Depreciation expenses increased largely due to having to completely depreciate the costs of the Champ software that this agency discontinued using as of December 31, 2015.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

	Capital Assets at Year-End (Net of Depreciation)			
	<u>2015</u>	<u>2014</u>	<u>Increase/ (Decrease)</u>	<u>Percent (%) Change</u>
Office equipment	<u>\$ 11,370</u>	<u>\$ 23,469</u>	<u>\$ (12,099)</u>	(51.55)

The decrease in capital assets is due to the discontinued use of Nightingale Notes (Champ software).

FUTURE EVENTS

Norman-Mahnomen Public Health became a department under Norman County as of January 1, 2016. This joint powers entity ceased to exist and this will be the last audit report of this agency.

CONTACTING THE PUBLIC HEALTH'S FINANCIAL MANAGEMENT

This financial report provides our citizens, taxpayers, customers, and creditors with a general overview of the Public Health's finances and shows the Public Health's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact: Sarah Kjono, Norman-Mahnomen Public Health Director, 15 East 2nd Avenue North, Room 107, Ada, Minnesota 56510; 218-784-5425; sarah.kjono@co.norman.mn.us.

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

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

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	<u>2015</u>
<u>Assets</u>	
Current assets	
Cash and cash equivalents	\$ 342,321
Petty cash and change funds	100
Accounts receivable	19,442
Grants receivable	64,907
Contracts receivable	32,193
	<hr/>
Total current assets	\$ 458,963
Depreciable capital assets - net	11,370
	<hr/>
Total Assets	\$ 470,333
<u>Deferred Outflows of Resources</u>	
Deferred pension outflows	\$ 43,943
	<hr/>
<u>Liabilities</u>	
Current liabilities	
Accounts payable	\$ 2,747
Compensated absences payable	16,954
Due to other governments	10,793
	<hr/>
Total current liabilities	\$ 30,494
Noncurrent liabilities	
Net pension liability	326,498
	<hr/>
Total Liabilities	\$ 356,992
<u>Deferred Inflows of Resources</u>	
Deferred pension inflows	\$ 51,692
	<hr/>
<u>Net Position</u>	
Investment in capital assets	\$ 11,370
Unrestricted	94,222
	<hr/>
Total Net Position	\$ 105,592
	<hr/> <hr/>

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

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015**

	2015
Operating Revenues	
Charges for services	\$ 110,587
Screenings and outreach	37,809
Health promotion and clinics	1,825
School services	32,490
Miscellaneous	38,494
Total Operating Revenues	\$ 221,205
Operating Expenses	
Personnel	\$ 531,296
Professional services	15,643
Administrative	44,507
Travel	17,489
Materials and supplies	15,284
Equipment rental and repair	8,606
Rent	15,750
Direct costs	66,078
Depreciation	20,976
Total Operating Expenses	\$ 735,629
Operating Income (Loss)	\$ (514,424)
Nonoperating Revenues (Expenses)	
Property taxes	\$ 177,086
Intergovernmental	349,519
Interest income	29
Total Nonoperating Revenues (Expenses)	\$ 526,634
Change in Net Position	\$ 12,210
Net Position - January 1, as restated (Note 1.E.)	93,382
Net Position - December 31	\$ 105,592

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

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	2015
Cash Flows from Operating Activities	
Receipts from customers and users	\$ 212,580
Payments to suppliers	(188,996)
Payments to employees	(527,402)
	\$ (503,818)
Cash Flows from Noncapital Financing Activities	
Property taxes	\$ 177,086
Intergovernmental	360,941
	\$ 538,027
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	\$ (8,877)
Cash Flows from Investing Activities	
Investment earnings received	\$ 29
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 25,361
Cash and Cash Equivalents at January 1	317,060
Cash and Cash Equivalents at December 31	\$ 342,421
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	\$ (514,424)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 20,976
(Increase) decrease in accounts receivable	(1,888)
(Increase) decrease in contracts receivable	(6,737)
(Increase) decrease in prepaid items	6,044
(Increase) decrease in deferred pension outflows	(43,943)
Increase (decrease) in accounts payable	(13,976)
Increase (decrease) in salaries payable	(568)
Increase (decrease) in compensated absences	62
Increase (decrease) in due to other governments	2,293
Increase (decrease) in deferred pension inflows	51,692
Increase (decrease) in net pension liability (inclusive of prior period adjustment)	(3,349)
	\$ 10,606
Total adjustments	\$ 10,606
Net Cash Provided by (Used in) Operating Activities	\$ (503,818)

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

Page 11

This page was left blank intentionally.

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Summary of Significant Accounting Policies

Norman-Mahnomen Public Health's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2015. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by Norman-Mahnomen Public Health are discussed below.

A. Financial Reporting Entity

Norman-Mahnomen Public Health was established pursuant to Minn. Stat. ch. 145A and a joint powers agreement effective July 1, 1977, amended effective January 1, 2005, for the withdrawal of Becker County. In 2012, Norman and Mahnomen Counties entered into a joint powers agreement pursuant to Minn. Stat. ch. 145A to create the Polk-Norman-Mahnomen Community Health Board. Effective December 31, 2012, the Norman-Mahnomen Community Health Board was dissolved and, on January 1, 2013, the Norman-Mahnomen Board of Health was created and does business under the name Norman-Mahnomen Public Health.

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

The primary functions of Norman-Mahnomen Public Health are to prevent illness and to promote efficiency and economy in the delivery of community health services.

Norman-Mahnomen Public Health is not a component unit of either of the member counties, nor does it have any component units. The financial statements of Norman-Mahnomen Public Health will not be included in any member county's financial statements.

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

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

Norman-Mahnomen Public Health participates in three joint ventures described in Note 5.B.

B. Basic Financial Statements

The accounts of Norman-Mahnomen Public Health are organized as an enterprise fund. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

C. Measurement Focus and Basis of Accounting

Norman-Mahnomen Public Health's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is Norman-Mahnomen Public Health's policy to use restricted resources first and then unrestricted resources as needed.

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

1. Cash and Cash Equivalents

Norman-Mahnomen Public Health has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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

1. Summary of Significant Accounting Policies

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

2. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements. Capital assets are defined by Norman-Mahnomen Public Health as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. During the current period, Norman-Mahnomen Public Health did not have any capitalized interest.

Property, plant, and equipment of Norman-Mahnomen Public Health are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Furniture, equipment, and vehicles	2 - 10

3. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The current portion consists of an amount based on a trend analysis of current usage of vacation. The noncurrent portion consists of the remaining amount of vacation and sick leave. Compensated absences are accrued when incurred.

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

1. Summary of Significant Accounting Policies

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

4. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Norman-Mahnomen Public Health has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows consist of pension plan contributions paid subsequent to the measurement date and also the differences between projected and actual earnings on pension plan investments.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Norman-Mahnomen Public Health has one item, deferred pension inflows, that qualifies for reporting in this category. These inflows consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share.

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

1. Summary of Significant Accounting Policies

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

6. Equity Classifications

Equity is classified as net position. Investment in capital assets represents capital assets, net of accumulated depreciation. Unrestricted net position is net position that does not meet the definition of restricted or investment in capital assets.

7. Operating Revenues and Expenses

Norman-Mahnomen Public Health's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing services. Nonexchange revenues, including member county appropriations, interest income, grants, and contributions received for purposes other than for capital asset acquisition, are reported as nonoperating revenues (expenses). Operating expenses are all expenses incurred to provide services.

8. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Change in Accounting Principles

During the year ended December 31, 2015, Norman-Mahnomen Public Health adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

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

1. Summary of Significant Accounting Policies

E. Change in Accounting Principles (Continued)

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, modifies the measure of payroll that is presented in the required supplementary information schedules.

GASB Statements 68 and 71 require Norman-Mahnomen Public Health to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the net pension liability and related deferred outflows of resources.

Net Position, January 1, 2015, as previously reported	\$ 423,229	
Change in accounting principles	(329,847)	
Net Position, January 1, 2015, as restated	\$ 93,382	

2. Detailed Notes

A. Assets

1. Deposits and Investments

Norman-Mahnomen Public Health's total cash and cash equivalents are reported as follows:

		2015
Cash and cash equivalents	\$ 342,321	
Petty cash and change funds	100	
Total Cash and Cash Equivalents	\$ 342,421	

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

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

Norman-Mahnomen Public Health is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. Norman-Mahnomen Public Health is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better or revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, Norman-Mahnomen Public Health's deposits may not be returned to it. Norman-Mahnomen Public Health does not have a deposit policy for custodial credit risk. As of December 31, 2015, its deposits were not exposed to custodial credit risk.

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

2. Detailed Notes

A. Assets (Continued)

2. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

During the year ended December 31, 2015, Norman-Mahnomen Public Health had no investments.

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

2. Detailed Notes

A. Assets (Continued)

3. Receivables

Receivables as of December 31, 2015, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts	\$ 19,442	\$ -
Grants	64,907	-
Contracts	32,193	-
Total	\$ 116,542	\$ -

4. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Machinery, furniture, and equipment	\$ 61,720	\$ 8,877	\$ 29,552	\$ 41,045
Less: accumulated depreciation for machinery, furniture, and equipment	38,251	20,976	29,552	29,675
Total Capital Assets Depreciated, Net	\$ 23,469	\$ (12,099)	\$ -	\$ 11,370

Depreciation expense for the year was \$20,976.

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

2. Detailed Notes (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2015, were as follows:

Accounts	\$ 2,747
Due to other governments	<u>10,793</u>
 Total Payables	 <u><u>\$ 13,540</u></u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for compensated absences	<u>\$ 16,892</u>	<u>\$ 44,896</u>	<u>\$ 44,834</u>	<u>\$ 16,954</u>	<u>\$ 16,954</u>

3. Defined Benefit Pension Plan

A. Plan Description

All full-time and certain part-time employees of Norman-Mahnomen Public Health are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

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

3. Defined Benefit Pension Plan

A. Plan Description (Continued)

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

B. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph 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 their public service.

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 General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under 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.

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

3. Defined Benefit Pension Plan

B. Benefits Provided (Continued)

For General Employees Retirement Fund members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

C. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015.

In 2015, Norman-Mahnomen Public Health was required to contribute the following percentages of annual covered salary:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.50

The Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014.

Norman-Mahnomen Public Health's contributions for the General Employees Retirement Fund for the year ended December 31, 2015, were \$27,314. The contributions are equal to the contractually required contributions as set by state statute.

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

3. Defined Benefit Pension Plan (Continued)

D. Pension Costs

At December 31, 2015, Norman-Mahnomen Public Health reported a liability of \$326,498 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Norman-Mahnomen Public Health's proportion of the net pension liability was based on its contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, Norman-Mahnomen Public Health's proportion was 0.0063 percent. It was 0.0073 percent measured as of June 30, 2014. Norman-Mahnomen Public Health recognized pension expense of \$31,714 for its proportionate share of the General Employees Retirement Fund's pension expense.

Norman-Mahnomen Public Health reported its proportionate share of the General Employees Retirement Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 16,461
Difference between projected and actual investment earnings	30,908	-
Changes in proportion	-	35,231
Contributions paid to PERA subsequent to the measurement date	13,035	-
Total	\$ 43,943	\$ 51,692

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

3. Defined Benefit Pension Plan

D. Pension Costs (Continued)

A total of \$13,035 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2016	\$ (9,504)
2017	(9,504)
2018	(9,504)
2019	7,728

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. The cost of living benefit increases for retirees was assumed to be 1.0 percent effective every January 1 through 2035, and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

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

3. Defined Benefit Pension Plan

E. Actuarial Assumptions (Continued)

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

3. Defined Benefit Pension Plan (Continued)

G. Pension Liability Sensitivity

The following presents Norman-Mahnomen Public Health’s proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what Norman-Mahnomen Public Health’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 513,372	\$ 326,498	\$ 172,170

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

4. Risk Management

Norman-Mahnomen Public Health is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. Norman-Mahnomen Public Health has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). It is a member of both the MCIT Workers’ Compensation and Property and Casualty Divisions. Norman-Mahnomen Public Health retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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

4. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$490,000 per claim in 2015 and \$500,000 per claim in 2016. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess Norman-Mahnomen Public Health in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and Norman-Mahnomen Public Health pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess Norman-Mahnomen Public Health in a method and amount to be determined by MCIT.

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although Norman-Mahnomen Public Health expects such amounts, if any, to be immaterial.

B. Joint Ventures

Mahnomen County Interagency Collaborative

The Mahnomen County Interagency Collaborative (MCIC) was established in 1998, pursuant to Minn. Stat. § 124D.23, between Mahnomen County Human Services, the Mahnomen County Sheriff's Department, Independent School Districts 432 and 435, the Minnesota Department of Corrections, Norman-Mahnomen Public Health, Northwestern Mental Health Center, Stellher Human Services, the University of Minnesota Mahnomen County Extension Office, Mahnomen Health Center, MAHUBE-OTWA Community Action Partnership, White Earth Human Services, and White Earth Mental Health. Mahnomen County Human Services is the acting fiscal agent of the MCIC. The purpose of the MCIC is to provide healthier communities and families and to reduce the number of out-of-home placements.

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

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Mahnomen County Interagency Collaborative (Continued)

The management of the MCIC is vested in the interagency agreements. Each participating agency is granted one vote upon the receipt of a resolution from its governing board, except for Mahnomen County, which is granted two votes.

In the event of withdrawal from the MCIC, the withdrawing party shall give a 30-day notice. Should the MCIC cease to exist, all property, real and personal, held by the MCIC at the time of termination shall be distributed by resolution of the Board in accordance with law and in a manner to best accomplish the continuing purposes of the MCIC.

Financing is provided by state and federal grants. During 2015, Norman-Mahnomen Public Health did not contribute any funds to the MCIC.

The Children's Collaborative (Serving Norman County Families)

The Children's Collaborative (Serving Norman County Families) was established in 1999 under the authority of Minn. Stat. § 124D.23. The Collaborative includes Norman County Social Services, Ada-Borup Public Schools, Norman County East Public Schools, Norman County West Public Schools, Norman-Mahnomen Public Health, Tri-County Community Corrections, Northwestern Mental Health Center, and Tri-Valley Opportunity Council, Inc. The purpose of the Collaborative is to provide coordinated services and to commit resources to an integrated fund.

Control of the Collaborative is vested in a Board of Directors, which is composed of one member appointed by each member party.

In the event of withdrawal from the Collaborative, the withdrawing party shall give a 180-day notice. The withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to a refund of contributions made to the integrated fund or other fees paid to operate the Collaborative. The Board shall continue to exist if the Collaborative is terminated for the limited purposes of discharging the Collaborative's debt and liabilities, settling its affairs, and disposing of integrated fund assets, if any.

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

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

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

Financing is provided by state and federal grants and contributions from its member parties. Norman County, in an agent capacity, reports the cash transactions of the Collaborative as an agency fund on its financial statements. During 2015, Norman-Mahnomen Public Health contributed \$600 to the Collaborative.

Polk-Norman-Mahnomen Community Health Board

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

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

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

Financing is provided by state and federal grants. Polk County is the fiscal agent for the Community Health Board. During 2015, Norman-Mahnomen Public Health did not contribute to the Community Health Board.

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

5. Summary of Significant Contingencies and Other Items (Continued)

C. Operating Budget

Budget to actual revenues and expenses for the year ended December 31, 2015, were as follows:

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	\$ 206,840	\$ 221,205	\$ 14,365
Operating Expenses	708,803	735,629	(26,826)
Operating Income (Loss)	\$ (501,963)	\$ (514,424)	\$ (12,461)
Nonoperating Revenues (Expenses)	485,507	526,634	41,127
Net Income (Loss)	\$ (16,456)	\$ 12,210	\$ 28,666

D. Subsequent Event

Effective January 1, 2016, Norman-Mahnomen Public Health will no longer be a separate entity. Instead, it will be merged into Norman County and will be treated as a department of Norman County and accounted for as one of its funds. All assets, liabilities, and net position will be transferred to Norman County.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

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

EXHIBIT A-1

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0063%	\$ 326,498	\$ 370,635	88.09%	78.19%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

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

EXHIBIT A-2

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 27,313	\$ 27,313	\$ -	\$ 364,173	7.50%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. Norman-Mahnomen Public Health's year-end is December 31.

This page was left blank intentionally.

This page was left blank intentionally.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015**

INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 1997-001

Segregation of Duties

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

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

Context: This is not unusual in operations the size of Norman-Mahnomen Public Health; however, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

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

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

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

Client's Response:

Norman-Mahnomen Community Health Board and management recognize the agency lacks staff needed for complete segregation of duties. The Board reviews the office procedures annually to ensure that the agency is operating with the best segregation of duties possible with this limited amount of staff.



REBECCA OTTO
STATE AUDITOR

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)

COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND/OR MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS

Norman-Mahnomen Board of Health
Norman-Mahnomen Public Health
Ada, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the financial statements of Norman-Mahnomen Public Health as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Norman-Mahnomen Public Health's basic financial statements, and have issued our report thereon dated January 5, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of Norman-Mahnomen Public Health's basic financial statements, we considered Norman-Mahnomen Public Health's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Norman-Mahnomen Public Health's internal control. Accordingly, we do not express an opinion on the effectiveness of Norman-Mahnomen Public Health's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Norman-Mahnomen Public Health's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. Our audit was also not designed to identify deficiencies in internal control that might be significant deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiency is reported in the Schedule of Findings and Recommendations as item 1997-001.

Other Matters

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

This communication is intended solely for the information and use of the Norman-Mahnomen Board of Health, management, and others within Norman-Mahnomen Public Health, and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 5, 2017



REBECCA OTTO
STATE AUDITOR

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)

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Norman-Mahnomen Board of Health
Norman-Mahnomen Public Health
Ada, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of Norman-Mahnomen Public Health as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Norman-Mahnomen Public Health's basic financial statements, and have issued our report thereon dated January 5, 2017.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for contracting and bidding because Norman-Mahnomen Public Health did not do any contracting during 2015. We also did not test for compliance with tax increment financing because Norman-Mahnomen Public Health had no tax increment financing.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 5, 2017

Page 37