

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

NORMAN-MAHNOMEN PUBLIC HEALTH
ADA, MINNESOTA

YEARS ENDED DECEMBER 31, 2011 AND 2012

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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

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

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**

Years Ended December 31, 2011 and 2012



**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	10
Statement of Revenues, Expenses, and Changes in Net Position	2	11
Statement of Cash Flows	3	12
Notes to the Financial Statements		14
Management and Compliance Section		
Schedule of Findings and Recommendations		30
Communication of Significant Deficiencies and/or Material Weaknesses in Internal Control Over Financial Reporting and Other Matters		32
Independent Auditor's Report on Minnesota Legal Compliance		34

This page was left blank intentionally.

This page was left blank intentionally.

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

ORGANIZATION
DECEMBER 31, 2012

	<u>Position</u>	<u>County</u>	<u>Term Expires</u>
Community Health Board			
Karen Ahmann	Chair	Mahnomen	2013
David Geray*	Member	Mahnomen	2013
Sue Klassen	Member	Mahnomen	2013
Steven Bommersbach	Vice Chair	Norman	2013
Marvin Gunderson	Secretary	Norman	2013
Eldon Hetland	Member	Norman	2013
RN/PHN Director			
Jamie Hennen			Indefinite

*Replaced by James Kochmann effective January 1, 2013.

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 Community Health Board
Norman-Mahnomen Public Health

We have audited the accompanying financial statements of Norman-Mahnomen Public Health as of and for the years ended December 31, 2011 and 2012, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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, 2011 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 23, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011 AND 2012
(Unaudited)**

The Management's Discussion and Analysis for Norman-Mahnomen Public Health provides an overview of the agency's financial activities for the fiscal years ended December 31, 2011 and December 31, 2012. 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 Community Health Board is a joint powers enterprise operation of Mahnomen and Norman Counties doing business as Norman-Mahnomen Public Health. The Norman-Mahnomen Community Health Board is the Community Health Services Agency 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 Public Health is considered a distinct and separate entity from either of the two counties, and financial accountability lies with the Norman-Mahnomen Community Health Board 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.

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
	2012	2011	Increase/ (Decrease)	
Assets				
Current and other assets	\$ 287,048	\$ 365,587	\$ (78,539)	(21.48)
Capital assets	<u>35,996</u>	<u>17,212</u>	<u>18,784</u>	109.13
Total Assets	<u>\$ 323,044</u>	<u>\$ 382,799</u>	<u>\$ (59,755)</u>	(15.61)
Liabilities				
Current liabilities	\$ 21,612	\$ 36,622	\$ (15,010)	(40.99)
Long-term/noncurrent liabilities	<u>3,868</u>	<u>5,824</u>	<u>(1,956)</u>	(33.59)
Total Liabilities	<u>\$ 25,480</u>	<u>\$ 42,446</u>	<u>\$ (16,966)</u>	(39.97)
Net Position				
Net investment in capital assets	\$ 35,996	\$ 17,212	\$ 18,784	109.13
Unrestricted	<u>261,568</u>	<u>323,141</u>	<u>(61,573)</u>	(19.05)
Total Net Position	<u><u>\$ 297,564</u></u>	<u><u>\$ 340,353</u></u>	<u><u>\$ (42,789)</u></u>	(12.57)
	2011	2010	Increase/ (Decrease)	Percent (%) Change
Assets				
Current and other assets	\$ 365,587	\$ 327,998	\$ 37,589	11.46
Capital assets	<u>17,212</u>	<u>14,068</u>	<u>3,144</u>	22.35
Total Assets	<u>\$ 382,799</u>	<u>\$ 342,066</u>	<u>\$ 40,733</u>	11.91

	<u>2011</u>	<u>2010</u>	<u>Increase/ (Decrease)</u>	<u>Percent (%) Change</u>
Liabilities				
Current liabilities	\$ 36,622	\$ 20,426	\$ 16,196	79.29
Long-term/noncurrent liabilities	<u>5,824</u>	<u>5,009</u>	<u>815</u>	16.27
Total Liabilities	<u>\$ 42,446</u>	<u>\$ 25,435</u>	<u>\$ 17,011</u>	66.88
Net Position				
Net investment in capital assets	\$ 17,212	\$ 11,488	\$ 5,724	49.83
Unrestricted	<u>323,141</u>	<u>305,143</u>	<u>17,998</u>	5.90
Total Net Position	<u>\$ 340,353</u>	<u>\$ 316,631</u>	<u>\$ 23,722</u>	7.49

Changes in Net Position

	<u>2012</u>	<u>2011</u>	<u>Increase/ (Decrease)</u>	<u>Percent (%) Change</u>
Operating revenues				
Charges for services	\$ 73,859	\$ 93,232	\$ (19,373)	(20.78)
Screenings	26,827	24,949	1,878	7.52
Health promotions and clinics	4,817	6,024	(1,207)	(20.04)
School services	38,925	40,331	(1,406)	(3.49)
Miscellaneous	18,368	21,783	(3,415)	(15.68)
Nonoperating revenues				
Property taxes	153,614	153,614	-	-
Intergovernmental	349,422	447,970	(98,548)	(22.00)
Interest income	<u>560</u>	<u>1,196</u>	<u>(636)</u>	(53.18)
Total Revenues	<u>\$ 666,392</u>	<u>\$ 789,099</u>	<u>\$ (122,707)</u>	(15.55)
Operating expenses				
Personnel	\$ 543,277	\$ 567,328	\$ (24,051)	(4.24)
Professional services	2,272	14,325	(12,053)	(84.14)
Administrative	38,392	31,208	7,184	23.02
Travel	18,648	13,933	4,715	33.84
Supplies	15,823	10,563	5,260	49.80
Equipment rental/repair	10,665	5,183	5,482	105.77
Rent	15,750	15,750	-	-
Direct cost	57,244	99,504	(42,260)	(42.47)
Depreciation	7,110	7,488	(378)	(5.05)
Nonoperating expenses				
Interest expense	<u>-</u>	<u>95</u>	<u>(95)</u>	-
Total Expenses	<u>\$ 709,181</u>	<u>\$ 765,377</u>	<u>\$ (56,196)</u>	(7.34)
Increase (Decrease) in Net Position	<u>\$ (42,789)</u>	<u>\$ 23,722</u>	<u>\$ (66,511)</u>	(280.38)

	<u>2011</u>	<u>2010</u>	<u>Increase/ (Decrease)</u>	<u>Percent (%) Change</u>
Operating revenues				
Charges for services	\$ 93,232	\$ 81,053	\$ 12,179	15.03
Screenings	24,949	28,194	(3,245)	(11.51)
Health promotions and clinics	6,024	6,291	(267)	(4.24)
School services	40,331	40,084	247	0.6
Miscellaneous	21,783	17,916	3,867	21.58
Nonoperating revenues				
Property taxes	153,614	153,614	-	-
Intergovernmental	447,970	514,590	(66,620)	(12.95)
Interest income	1,196	2,243	(1,047)	(46.68)
Total Revenues	<u>\$ 789,099</u>	<u>\$ 843,985</u>	<u>\$ (54,886)</u>	<u>(6.50)</u>
Operating expenses				
Personnel	\$ 567,328	\$ 602,709	\$ (35,381)	(5.87)
Professional services	14,325	7,888	6,437	81.60
Administrative	31,208	35,109	(3,901)	(11.11)
Travel	13,933	14,450	(517)	(3.58)
Supplies	10,563	12,580	(2,017)	(16.03)
Equipment rental/repair	5,183	5,651	(468)	(8.28)
Rent	15,750	15,750	-	-
Direct cost	99,504	94,985	4,519	4.76
Depreciation	7,488	9,921	(2,433)	(24.52)
Nonoperating expenses				
Interest expense	95	530	(435)	(82.08)
Total Expenses	<u>\$ 765,377</u>	<u>\$ 799,573</u>	<u>\$ (34,196)</u>	<u>(4.28)</u>
Increase (Decrease) in Net Position	<u>\$ 23,722</u>	<u>\$ 44,412</u>	<u>\$ (20,690)</u>	<u>(46.59)</u>

In December 2011, the agency purchased two copiers instead of leasing copiers. The cost of the copiers was \$10,633. This has reduced agency copier costs by \$6,000 annually. The annual savings on copier costs will cover the purchase price by the end of 2013.

In October 2012, the agency purchased Nightingale Notes Software, incurring a cost of \$7,490 to train staff in use of new software with an additional cost of \$4,799 in support for 2012. These items were budgeted for 2011 but were not expended until 2012.

Board of Health expenses increased in 2012 by \$1,347.58 due to the meetings leading up to the joining of Polk, Norman, and Mahnommen Counties into one CHB. These CHB expenses were not budgeted for in 2012.

The initial State Health Improvement Project (SHIP) grant funding was completed June 30, 2011. SHIP continuation funding occurred on a much smaller scale in the second half of 2011. SHIP funding for 2012 was awarded on a competitive basis. Norman-Mahnomen received funding in a joint application with North Country CHB and Polk County CHB. North Country CHB (NCCHB) is the fiscal host for this funding. Norman-Mahnomen Public Health entered into a contract with NCCHB to provide SHIP coordination services in Norman, Mahnomen, and Polk County along with one staff member from Polk County. Additional SHIP staff services are being provided under an independent contract in both Norman and Mahnomen Counties due to lack of staff in the public health agency. This funding continues through June 30, 2013.

Effective July 16, 2012, Norman-Mahnomen Public Health was awarded a contract with the North Country CHB to provide CTG (Community Transformation Grant) services in the amount of \$5,000.38 through September 29, 2012. The contract was renewed for September 30, 2012, through September 29, 2013, in the amount of \$15,570.88.

Due to limited staffing and private vendor options, community-site foot care services were discontinued, decreasing foot care revenue by \$1,700.00.

Due to billing change processes with Blue Cross and Blue Shield for flu shots, \$7,775.67 is being disputed with BCBS; that amount was taken out of 2012 revenue to be conservative in projecting accounts receivable.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

	Capital Assets at Year-End (Net of Depreciation)			Percent (%) Change
	2012	2011	Increase/ (Decrease)	
Office equipment	\$ 35,996	\$ 17,212	\$ 18,784	109.13
	2011	2010	Increase/ (Decrease)	Percent (%) Change
Office equipment	\$ 17,212	\$ 14,068	\$ 3,144	22.35

Debt

	2011	2010
Capital leases payable 2006 copier/printer	\$ -	\$ 2,580

FUTURE EVENTS

The 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 to the Norman-Mahnomen Board of Health. Under the new CHB, there exists two separate health departments Norman-Mahnomen Public Health and Polk County Public Health.

Polk-Norman-Mahnomen CHB became the fiscal host for a Health Information Exchange Project Grant starting January 2013 with duties being performed by Norman-Mahnomen Public Health. This grant will require payments to be made to vendors and reimbursement requested from the Minnesota Department of Health.

Polk-Norman-Mahnomen Community Health Board was awarded the Minnesota Maternal, Infant and Early Childhood Home Visiting (MIECHV) Grant starting January 16, 2013.

State Health Improvement Project funding starting July 1, 2013, has not yet been determined.

CONTACTING THE PUBLIC HEALTH'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Public Health's finances and to show the Public Health's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact: Jamie Hennen, Norman-Mahnomen Community Health Services Administrator, 15 East 2nd Avenue North, Room 107, Ada, Minnesota 56510; 218-784-5425; jamie.hennen@co.mahnomen.mn.us.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

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

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2011 AND 2012**

	2011	2012
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 156,529	\$ 95,538
Petty cash and change funds	100	100
Certificate of deposit	102,869	103,385
Accounts receivable - net	36,605	12,491
Grants receivable	44,823	55,332
Contracts receivable	5,617	7,195
Prepaid items	19,044	13,007
Total current assets	\$ 365,587	\$ 287,048
Noncurrent assets		
Depreciable capital assets - net	17,212	35,996
Total Assets	\$ 382,799	\$ 323,044
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 4,547	\$ 10,377
Salaries payable	592	422
Compensated absences payable	8,948	10,015
Due to other governments	4,869	798
Unearned revenue	17,666	-
Total current liabilities	\$ 36,622	\$ 21,612
Noncurrent liabilities		
Compensated absences payable	5,824	3,868
Total Liabilities	\$ 42,446	\$ 25,480
<u>Net Position</u>		
Net investment in capital assets	\$ 17,212	\$ 35,996
Unrestricted	323,141	261,568
Total Net Position	\$ 340,353	\$ 297,564

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

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2012**

	2011	2012
Operating Revenues		
Charges for services	\$ 93,232	\$ 73,859
Screenings and outreach	24,949	26,827
Health promotion and clinics	6,024	4,817
School services	40,331	38,925
Miscellaneous	21,783	18,368
	\$ 186,319	\$ 162,796
Operating Expenses		
Personnel	\$ 567,328	\$ 543,277
Professional services	14,325	2,272
Administrative	31,208	38,392
Travel	13,933	18,648
Materials and supplies	10,563	15,823
Equipment rental and repair	5,183	10,665
Rent	15,750	15,750
Direct costs	99,504	57,244
Depreciation	7,488	7,110
	\$ 765,282	\$ 709,181
Operating Income (Loss)	\$ (578,963)	\$ (546,385)
Nonoperating Revenues (Expenses)		
Property taxes	\$ 153,614	\$ 153,614
Intergovernmental	447,970	349,422
Interest income	1,196	560
Interest expense	(95)	-
	\$ 602,685	\$ 503,596
Change in Net Position	\$ 23,722	\$ (42,789)
Net Position - January 1	316,631	340,353
Net Position - December 31	\$ 340,353	\$ 297,564

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

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2012**

	2011	2012
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 172,093	\$ 185,332
Payments to suppliers	(193,069)	(150,998)
Payments to employees	(565,889)	(544,336)
	\$ (586,865)	\$ (510,002)
Cash Flows from Noncapital Financing Activities		
Property taxes	\$ 153,614	\$ 153,614
Intergovernmental	463,572	321,247
	\$ 617,186	\$ 474,861
Cash Flows from Capital and Related Financing Activities		
Lease payments	\$ (2,580)	\$ -
Interest paid on long-term debt	(95)	-
Purchases of capital assets	(10,632)	(25,894)
	\$ (13,307)	\$ (25,894)
Cash Flows from Investing Activities		
Investment earnings received	\$ 1,196	\$ 560
Maturity of certificate of deposit	101,800	102,869
Purchase of certificate of deposit	(102,869)	(103,385)
	\$ 127	\$ 44
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 17,141	\$ (60,991)
Cash and Cash Equivalents at January 1	139,488	156,629
Cash and Cash Equivalents at December 31	\$ 156,629	\$ 95,638

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

**EXHIBIT 3
(Continued)**

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2012**

	2011	2012
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ (578,963)	\$ (546,385)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	\$ 7,488	\$ 7,110
(Increase) decrease in accounts receivable	(18,441)	24,114
(Increase) decrease in contracts receivable	4,215	(1,578)
(Increase) decrease in prepaid items	(3,089)	6,037
Increase (decrease) in accounts payable	1,087	5,830
Increase (decrease) in salaries payable	(40)	(170)
Increase (decrease) in payroll-related liabilities	(4,162)	-
Increase (decrease) in compensated absences	1,479	(889)
Increase (decrease) in due to other governments	3,561	(4,071)
	\$ (7,902)	\$ 36,383
Total adjustments	\$ (7,902)	\$ 36,383
Net Cash Provided by (Used in) Operating Activities	\$ (586,865)	\$ (510,002)

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2012**

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 years ended December 31, 2011 and 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the Public Health are discussed below.

A. Financial Reporting Entity

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

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, and Net Assets 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, and Net Assets or Equity (Continued)

2. Receivables and Payables

All receivables are shown net of an allowance for uncollectibles.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the statements.

4. Capital Assets

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

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

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

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

1. Summary of Significant Accounting Policies

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

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred.

6. 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 gains (losses). Operating expenses are all expenses incurred to provide services.

7. Use of Estimates

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

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

2. Detailed Notes

A. Assets

1. Deposits and Investments

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

	<u>2011</u>	<u>2012</u>
Cash and cash equivalents	\$ 156,529	\$ 95,538
Petty cash and change funds	<u>100</u>	<u>100</u>
Total Cash and Cash Equivalents	<u>\$ 156,629</u>	<u>\$ 95,638</u>

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, Norman-Mahnomen Public Health's deposits may not be returned to it. Norman-Mahnomen Public Health does not have a deposit policy for custodial credit risk. As of December 31, 2011 and 2012, 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 years ended December 31, 2011 and 2012, Norman-Mahnomen Public Health had no investments, except for a certificate of deposit purchased through a local bank.

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

2. Detailed Notes

A. Assets (Continued)

3. Receivables

Receivables as of December 31, 2011, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts	\$ 36,605	\$ -
Grants	44,823	-
Contracts	5,617	-
Total	\$ 87,045	\$ -

Receivables as of December 31, 2012, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts	\$ 12,491	\$ -
Grants	55,332	-
Contracts	7,195	-
Total	\$ 75,018	\$ -

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

2. Detailed Notes

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated Machinery, furniture, and equipment	\$ 51,849	\$ 10,632	\$ 17,578	\$ 44,903
Less: accumulated depreciation for machinery, furniture, and equipment	37,781	7,488	17,578	27,691
Total Capital Assets Depreciated, Net	<u>\$ 14,068</u>	<u>\$ 3,144</u>	<u>\$ -</u>	<u>\$ 17,212</u>

Depreciation expense for the year was \$7,488.

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated Machinery, furniture, and equipment	\$ 44,903	\$ 25,894	\$ 5,767	\$ 65,030
Less: accumulated depreciation for machinery, furniture, and equipment	27,691	7,110	5,767	29,034
Total Capital Assets Depreciated, Net	<u>\$ 17,212</u>	<u>\$ 18,784</u>	<u>\$ -</u>	<u>\$ 35,996</u>

Depreciation expense for the year was \$7,110.

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

2. Detailed Notes (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

Accounts	\$	4,547
Salaries		592
Due to other governments		4,869
Unearned revenue		17,666
		17,666
Total Payables	\$	27,674

Payables at December 31, 2012, were as follows:

Accounts	\$	10,377
Salaries		422
Due to other governments		798
		798
Total Payables	\$	11,597

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for Capital leases	\$ 2,580	\$ -	\$ 2,580	\$ -	\$ -
Compensated absences	13,293	49,431	47,952	14,772	8,948
	\$ 15,873	\$ 49,431	\$ 50,532	\$ 14,772	\$ 8,948
Long-Term Liabilities	\$ 15,873	\$ 49,431	\$ 50,532	\$ 14,772	\$ 8,948

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for Compensated absences	\$ 14,772	\$ 44,311	\$ 45,200	\$ 13,883	\$ 10,015
	\$ 14,772	\$ 44,311	\$ 45,200	\$ 13,883	\$ 10,015
	\$ 14,772	\$ 44,311	\$ 45,200	\$ 13,883	\$ 10,015

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

3. Employee Retirement Systems and Pension Plans

A. Plan Description

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

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

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 (five years for those first eligible for membership after June 30, 2010). Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

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

For General Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for members hired prior to July, 1, 1989, and is the age for unreduced Social Security benefits capped at age 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. Norman-Mahnomen Public Health makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary.

Norman-Mahnomen Public Health is required to contribute the following percentages of annual covered payroll in 2012:

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

Norman-Mahnomen Public Health's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund were:

<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 28,073	\$ 29,416	\$ 30,892

These contribution amounts are equal to the contractually required contribution rates for each year as set by state statute.

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

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.

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 \$460,000 per claim in 2012 and \$470,000 in 2013. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess Norman-Mahnomen Public Health in a method and amount to be determined by MCIT.

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

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

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

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 Nos. 432 and 435, 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.

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. Mahnomen County Human Services is the fiscal agent for the MCIC. During 2011 and 2012, 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.

**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)

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.

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 2011 and 2012, Norman-Mahnomen Public Health contributed \$500 and \$600, respectively, 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 Polk County Local Board of Health and Norman-Mahnomen Local 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 Polk County Board of Health and Norman-Mahnomen Board of Health each appointing two members.

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

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Polk-Norman-Mahnomen Community Health Board (Continued)

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 2012, Norman-Mahnomen Public Health did not contribute any funds to the Community Health Board.

C. Operating Budget

Budget to actual revenues and expenses for the year ended December 31, 2011, were as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues	\$ 206,335	\$ 186,319	\$ (20,016)
Operating Expenses	<u>700,188</u>	<u>765,282</u>	<u>(65,094)</u>
Operating Income (Loss)	\$ (493,853)	\$ (578,963)	\$ (85,110)
Nonoperating Revenues (Expenses)	<u>493,853</u>	<u>602,685</u>	<u>108,832</u>
Net Income (Loss)	<u>\$ -</u>	<u>\$ 23,722</u>	<u>\$ 23,722</u>

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

5. Summary of Significant Contingencies and Other Items

C. Operating Budget (Continued)

Budget to actual revenues and expenses for the year ended December 31, 2012, were as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues	\$ 204,040	\$ 162,796	\$ (41,244)
Operating Expenses	<u>625,042</u>	<u>709,181</u>	<u>(84,139)</u>
Operating Income (Loss)	\$ (421,002)	\$ (546,385)	\$ (125,383)
Nonoperating Revenues (Expenses)	<u>421,002</u>	<u>503,596</u>	<u>82,594</u>
Net Income (Loss)	<u>\$ -</u>	<u>\$ (42,789)</u>	<u>\$ (42,789)</u>

6. Subsequent Event

Board of Health

On January 1, 2013, Norman and Mahnomen Counties created the Norman-Mahnomen Board of Health to develop and implement policies, structures, and procedures to prevent illness and promote efficiency and economy of scale in the delivery of public health services. The Board of Health shall retain ownership of all assets and assume all liabilities of the Norman-Mahnomen Community Health Board, which was dissolved December 31, 2012.

This page was left blank intentionally.

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

**SCHEDULE OF FINDINGS AND RECOMENDATIONS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2012**

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-1 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 Community Health Board
Norman-Mahnomen Public Health

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Norman-Mahnomen Public Health as of and for the years ended December 31, 2011 and 2012, 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 May 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements of Norman-Mahnomen Public Health as of and for the years ended December 31, 2011 and 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Norman-Mahnomen Public Health's internal control over financial reporting 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 the Public Health's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the Public Health's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be deficiencies, significant deficiencies, or 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 a 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. A significant deficiency is reported in the Schedule of Findings and Recommendations as item 97-1.

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 Public Health's response and, accordingly, we express no opinion on it.

Purpose of This Report

This communication is intended solely for the information and use of the Norman-Mahnomen Community Health Board, 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

May 23, 2013



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 Community Health Board
Norman-Mahnomen Public Health

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 years ended December 31, 2011 and 2012, 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 May 23, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories except that we did not test for compliance with the provisions for contracting and bidding because Norman-Mahnomen Public Health did not do any contracting in 2011 or 2012.

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

This communication is intended solely for the information and use of those charged with governance 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

May 23, 2013