

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 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.

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**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

For the Year Ended December 31, 2012



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

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**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

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**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

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**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2012

Representing

Board

Marv Bodie, Chair
Barbara Little, Vice Chair
Janice Hall
Diane Pearson
Brad Alm
Thomas Clifford, M.D.
Chris Dahlberg, Secretary
Mike Forsman
Steve O'Neil

Carlton County
Carlton County
Cook County
Cook County
Lake County
Lake County
St. Louis County
St. Louis County
St. Louis County

Director

Julie Myhre

Medical Consultant

Harold B. Leppink, M.D.

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Carlton, Cook, Lake, and St. Louis
Community Health Board

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Carlton, Cook, Lake, and St. Louis Community Health Board, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Community Health Board'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the Community Health Board'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 the Community Health Board'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Carlton, Cook, Lake, and St. Louis Community Health Board as of December 31, 2012, and the respective changes in financial position and the budgetary comparison for the General Fund 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.C. to the financial statements, in 2012 the Community Health Board adjusted its period of availability policy for recognition of revenue from 60 days to 90 days. 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 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 Management's Discussion and Analysis 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Carlton, Cook, Lake, and St. Louis Community Health Board's basic financial statements. The Health Board's supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic

financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2013, on our consideration of the Carlton, Cook, Lake, and St. Louis Community Health Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Carlton, Cook, Lake, and St. Louis Community Health Board's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 24, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

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

Our Management's Discussion and Analysis (MD&A) of the Carlton, Cook, Lake, and St. Louis Community Health Board's financial performance provides an overview of the financial activities for the fiscal year ended December 31, 2012. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The total net position of the Board decreased by \$12,317 (5 percent).
- The Board's General Fund reported an ending fund balance of \$217,753, an increase of \$194,439. Unrestricted fund balance (available spendable resources) accounts for all of the ending fund balance.
- The General Fund reported an excess of revenues over expenditures of \$194,439.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the Board's basic financial statements. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial data and the fund financial data are reported in the same financial statements. This report contains other supporting schedules in addition to the basic financial statements.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities report information about the Board as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Board's net position and changes to them. Net position--the difference between assets and liabilities--is one way to measure the Board's financial health, or financial position. Over time, increases or decreases in the Board's net position are one indicator of whether its financial health is improving or deteriorating. The government-wide financial statements can be found on Exhibits 1 and 2.

Fund Financial Statements

Fund financial statements provide detailed information about the General Fund--not the Board as a whole. The Board's General Fund is considered a governmental fund.

All of the Board's services are reported in the General Fund, which focuses on how money flows in and out of the fund and any balance left at year-end available for spending. This fund is reported using the modified accrual method of accounting, which measures cash and all other financial assets that can be readily converted to cash. The General Fund statements provide a detailed short-term view of the Board's operations and the basic services it provides. General Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance Board programs. The General Fund financial statements can be found on Exhibits 3 through 7 of this report.

Notes to the Financial Statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18 through 28.

Supporting Schedules

A Schedule of Intergovernmental Revenue is included as Exhibit A-1.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may, over time, be a useful indicator of a government's financial position. In the case of the Carlton, Cook, Lake, and St. Louis Community Health Board, assets exceeded liabilities by \$235,756.

All of the Board's net position is unrestricted. The Board does not have any individual capital assets costing more than \$5,000, which is the threshold the Board has set for defining capital assets.

The following analysis focuses on the Board's net position (Table 1).

**Table 1
Net Position**

	Governmental Activities	
	2012	2011
Current and other assets	\$ 1,069,874	\$ 1,188,582
Other liabilities	\$ 805,001	\$ 915,329
Long-term liabilities outstanding	29,117	25,180
Total Liabilities	\$ 834,118	\$ 940,509
Net Position		
Unrestricted	\$ 235,756	\$ 248,073

Governmental Activities

The Board's net position decreased by \$12,317 (5 percent), from \$248,073 down to \$235,756.

All of the \$1,069,874 in current and other assets is made up of due from other governments.

The Board's long-term liabilities are for compensated absences. Amounts due to other governments account for 78 percent of the other liabilities. Other liabilities are detailed on the General Fund balance sheet under liabilities.

The following analysis focuses on the Board's changes in net position (Table 2).

**Table 2
Changes in Net Assets**

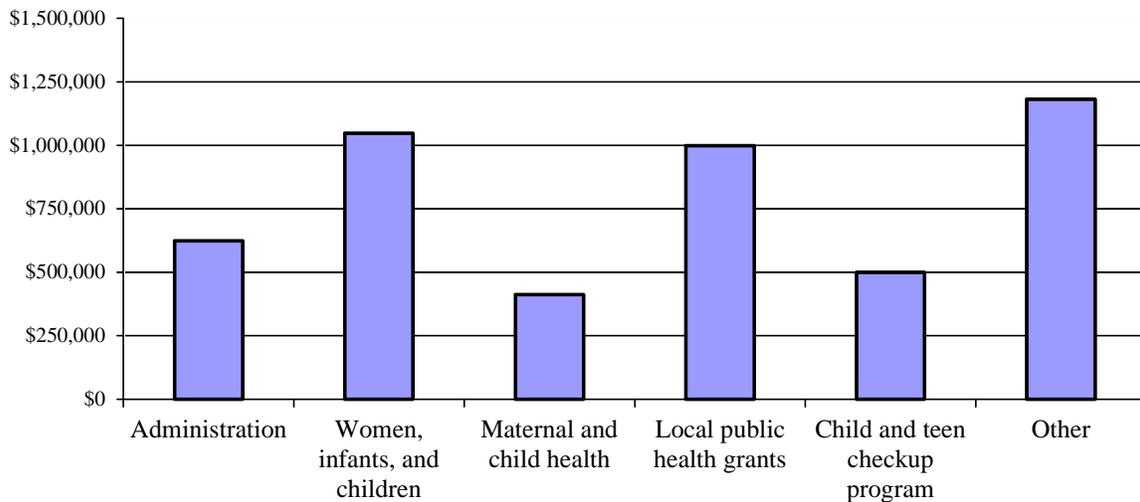
	Governmental Activities	
	2012	2011
Revenues		
Program revenues		
Operating grants and contributions	\$ 4,746,699	\$ 6,073,622
Miscellaneous revenue	1,563	-
Total Revenues	\$ 4,748,262	\$ 6,073,622

	Governmental Activities	
	2012	2011
Expenses		
Program expenses		
Administration	\$ 624,025	\$ 550,807
Women, infants, and children	1,046,627	1,073,077
Maternal and child health	411,688	308,528
Local public health grants	998,098	998,098
Child and teen checkup program	499,723	536,061
Other	1,180,418	2,564,510
Total Expenses	\$ 4,760,579	\$ 6,031,081
Increase (Decrease) in Net Position	\$ (12,317)	\$ 42,541
Net Position - January 1	248,073	205,532
Net Position - December 31	\$ 235,756	\$ 248,073

Operating grants and contributions were from state-shared revenues and reimbursements and state and federal grants. State grants of \$1,872,342 and federal grants of \$2,855,428 were reported in 2012.

Expenditures and revenues are shown in detail in the budgetary comparison schedule.

**Expenses
Governmental Activities**



Operating grants and contributions made up 99.97 percent of the governmental activities' revenues.

Financial Analysis of the General Fund

As noted earlier, the Carlton, Cook, Lake, and St. Louis Community Health Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Board's General Fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of net resources available for spending at the end of the fiscal year.

As of December 31, 2012, the Board's General Fund reported a fund balance of \$217,753, compared with \$23,314 in 2011. Of the fund balance, all of it was unrestricted, which is available for spending at the Board's discretion.

The Board's General Fund's fund balance increased \$194,439 as a result of the Board modifying its policy regarding the period of availability for revenue recognition in 2012. See Note 1.C.

General Fund Budgetary Highlights

The Carlton, Cook, Lake, and St. Louis Community Health Board is a regional organization providing services to four counties in northeastern Minnesota. The majority of the funding is provided through state and federal grants. Reimbursement for services is a minor funding source.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year-end, the Board did not have any capital assets.

Debt Administration

At year-end, the Board did not have any outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Carlton, Cook, Lake, and St. Louis Community Health Board is both state and federal budget-responsive. The Board operates as the applicant agency for the four member counties and receives funding for various federal and state public health programs from the Minnesota Department of Health and the Minnesota Department of Human Services on a noncompetitive population needs-based formula or through a competitive grant application process. Funding allocations will fluctuate according to state and federal actions and population changes. The number of successful competitive grant-funding awards also affects the overall Board budget.

With some fluctuation in certain public health programs, funding levels have remained relatively consistent. The Minnesota Statewide Health Improvement Program (SHIP) continued, and the Community Health Board received additional funding through the Community Transformation Grant in 2012.

The Carlton, Cook, Lake, and St. Louis Community Health Board is the largest community health board (in geographic area) in the state. Carlton, Cook, Lake, and St. Louis Counties are located in northeastern Minnesota and cover 10,635 miles (over 13 percent of the entire square miles in the state of Minnesota).

St. Louis County's population represents 80 percent of the total four-county population. Carlton County is approximately 13 percent, Cook County is approximately 2 percent, and Lake County is approximately 5 percent. The Board uses this population apportionment as it considers distributing funding for some of its programs.

CONTACTING THE CARLTON, COOK, LAKE, AND ST. LOUIS COMMUNITY HEALTH BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of finances and to show the Carlton, Cook, Lake, and St. Louis Community Health Board's accountability for the money it receives. If you have a question about this report, or need information, contact the Board's office at 404 West Superior Street, Suite 220, Duluth, Minnesota 55802.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

EXHIBIT 1

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

	<u>Primary Government Governmental Activities</u>
<u>Assets</u>	
Due from other governments	<u>\$ 1,069,874</u>
<u>Liabilities</u>	
Accounts payable	\$ 86,103
Salaries payable	14,727
Due to other governments	625,015
Unearned revenue	79,156
Long-term liabilities	
Due within one year	-
Due in more than one year	<u>29,117</u>
Total Liabilities	<u>\$ 834,118</u>
<u>Net Position</u>	
Unrestricted	<u><u>\$ 235,756</u></u>

**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position Primary Government Governmental Activities</u>
<u>Functions/Programs</u>			
Primary government Governmental activities			
Human services	\$ 608,024	\$ 355,959	\$ (252,065)
Health	<u>4,152,555</u>	<u>4,390,740</u>	<u>238,185</u>
Total Governmental Activities	<u>\$ 4,760,579</u>	<u>\$ 4,746,699</u>	<u>\$ (13,880)</u>
		General Revenues	
		Grants and contributions not restricted to specific programs	<u>1,563</u>
		Change in net position	\$ (12,317)
		Net Position - Beginning	<u>248,073</u>
		Net Position - Ending	<u>\$ 235,756</u>

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2012**

	General
<u>Assets</u>	
Due from other governments	\$ 1,069,874
<u>Liabilities and Fund Balance</u>	
Liabilities	
Accounts payable	\$ 86,103
Salaries payable	14,727
Due to other governments	625,015
Deferred revenue - unavailable	47,120
Deferred revenue - unearned	79,156
Total Liabilities	\$ 852,121
Fund Balance	
Assigned	
Vesting sick leave	\$ 29,117
Special projects	334
Unassigned	188,302
Total Fund Balance	\$ 217,753
Total Liabilities and Fund Balance	\$ 1,069,874

**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Fund balance - governmental fund (Exhibit 3)	\$ 217,753
Amounts reported for governmental activities in the statement of net assets are different because:	
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental fund.	47,120
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental fund.	
Compensated absences	<u>(29,117)</u>
Net Position of Governmental Activities (Exhibit 1)	<u><u>\$ 235,756</u></u>

**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General Fund</u>
Revenues	
Intergovernmental	\$ 4,932,152
Miscellaneous	<u>18,929</u>
Total Revenues	<u>\$ 4,951,081</u>
Expenditures	
Current	
Health	\$ 4,148,618
Human services	<u>608,024</u>
Total Expenditures	<u>\$ 4,756,642</u>
Net Change in Fund Balance	\$ 194,439
Fund Balance - January 1	<u>23,314</u>
Fund Balance - December 31	<u><u>\$ 217,753</u></u>

**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balance - governmental fund (Exhibit 5) \$ 194,439

Amounts reported for governmental activities in the statement of activities are different because:

In the fund, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred revenue - January 1	\$ (249,939)	
Deferred revenue - December 31	<u>47,120</u>	(202,819)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Changes in compensated absences during 2012		
Payable - January 1	\$ 25,180	
Payable - December 31	<u>(29,117)</u>	<u>(3,937)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ (12,317)

**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

EXHIBIT 7

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 4,407,372	\$ 4,815,653	\$ 4,932,152	\$ 116,499
Miscellaneous	23,459	18,929	18,929	-
Total Revenues	\$ 4,430,831	\$ 4,834,582	\$ 4,951,081	\$ 116,499
Expenditures				
Administration				
Community Health Board	\$ 575,655	\$ 677,076	\$ 620,088	\$ 56,988
Intergovernmental				
Local Public Health Grant	\$ 998,098	\$ 998,098	\$ 998,098	\$ -
Special Supplemental Nutrition Program for Women, Infants, and Children	703,358	1,038,389	1,046,627	(8,238)
Maternal and Child Health	404,127	427,135	411,688	15,447
Immunization Grants	-	1,300	1,300	-
Temporary Assistance for Needy Families (TANF)	390,267	386,667	386,667	-
Public Health Emergency Response	116,026	202,257	200,809	1,448
Statewide Health Improvement Program	716,396	375,958	375,958	-
Community Transformation Grant	-	208,559	208,559	-
Child and Teen Checkups	558,249	554,442	499,723	54,719
Early Hearing Detection and Intervention	-	7,125	7,125	-
Total intergovernmental	\$ 3,886,521	\$ 4,199,930	\$ 4,136,554	\$ 63,376
Total Expenditures	\$ 4,462,176	\$ 4,877,006	\$ 4,756,642	\$ 120,364
Net Change in Fund Balance	\$ (31,345)	\$ (42,424)	\$ 194,439	\$ 236,863
Fund Balance - January 1	23,314	23,314	23,314	-
Fund Balance - December 31	\$ (8,031)	\$ (19,110)	\$ 217,753	\$ 236,863

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**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The Carlton, Cook, Lake, and St. Louis Community Health Board's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 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 Board are discussed below.

A. Financial Reporting Entity

The Carlton, Cook, Lake, and St. Louis Community Health Board was established pursuant to Minn. Stat. ch. 145A and a joint powers agreement effective January 1, 1991.

The Board is composed as follows:

- Except for St. Louis County, each member County Board of Commissioners appoints two members. St. Louis County is entitled to three members appointed by the County Board of Commissioners.
- Members appointed by each county having a Board of Health are selected from among those persons currently serving on that county's Board of Health or County Health Advisory Committee.
- Of the members appointed by member County Boards of Commissioners, at least one member shall be a County Commissioner.

The primary activities of the Board are to protect and promote the health of the general population within the counties by emphasizing the prevention of disease, injury, disability, and preventable death through the promotion of effective coordination and use of community resources, and by extending health services into the community.

St. Louis County reports the financial transactions of the Board in an agency fund on its annual financial statements.

**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

Basic financial statements include information on the Board's activities as a whole and information on the individual fund. In the government-wide Statement of Net Position, the governmental activities column is reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Statement of Activities demonstrates the degree to which the expenses of the Board are offset by revenues.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund are presented on the modified accrual basis and report current financial resources.

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Board considers all revenues as available if collected within 90 days after the end of the current period. This is an increase of the period of availability from 60 days in 2011. This change resulted in an increase in revenues and fund balance of \$184,968 in the General Fund as of and for the year ending December 31, 2012.

Charges for services and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

The Board applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

D. Assets, Liabilities, and Net Position or Equity

1. Cash and Pooled Investments

The Board's available cash balances are pooled and invested by St. Louis County in accordance with Minnesota statutes. The Board's cash balances and investments are at fair value based on quoted market prices. Additional disclosures defining cash and pooled investments can be found in the St. Louis County Comprehensive Annual Financial Report.

2. Capital Assets

Capital assets are defined by the Board as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. The Board did not have any capital assets costing more than \$5,000.

3. Deferred Revenue

Deferred revenue consists of state and federal pass-through grants received, but not yet earned. The General Fund also reports deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation 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 in the fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Under the Board's personnel policy, employees are granted vacation in varying amounts based on their length of service. Vacation leave earned varies from 6 1/2 to 29 days per year. Sick leave earned is 13 days per year.

Unused vacation leave is paid to employees upon termination. Unvested sick leave, approximately \$19,440 at December 31, 2012, is available to employees in the event of illness-related absences and is not paid to them at termination. The amount of unvested sick leave is not reported in the financial statements.

The Board's personnel policy allows vested sick leave to be paid to employees at retirement or used for the payment of employees' health insurance coverage during their retirement. This only applies to employees who have retired after having been continuously employed by the Board for at least five years prior to such retirement and having up to 1,900 hours of unused sick leave time.

5. 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.

**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

7. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the Board is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - the amounts for which constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

7. Classification of Fund Balances (Continued)

Committed - amounts that can be used only for the specific purposes imposed by formal action of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned - amounts the Board intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board.

Unassigned - unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications.

E. Budgetary Information

The Carlton, Cook, Lake, and St. Louis Community Health Board adopts an annual revenue and expenditure budget for the General Fund on a basis consistent with generally accepted accounting principles. The budget is subject to approval by the State of Minnesota and the Board, which comprises representatives from the member counties.

In the fall (September/October) of each year, the Board Director submits a request for appropriations in the Board administration budget, including funding sources, to the Community Health Board for approval so that individual county appropriations can be determined and Board administration budgets can be prepared. County budgets are approved by the local County Board. The Board submits the four counties' budgets to the state for approval.

The appropriated budgets are prepared by each member County Board. The counties may make transfers of appropriations within their own county when appropriate. Transfer of appropriations between county departments requires County Board approval. The legal level of budgetary control (the level at which expenditures may not legally exceed the budget) is at the county level.

**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Budgetary Information (Continued)

For the year ended December 31, 2012, revenues exceeded expectations by \$116,499; expenditures were under budget by \$120,364.

2. Detailed Notes

A. Assets

1. Deposits and Investments

The Board is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to deposit its cash and to invest in certificates of deposit in financial institutions designated by the St. Louis County Board of Commissioners and the Carlton, Cook, Lake, and St. Louis Community Health Board. Minnesota statutes require that all Board deposits be covered by insurance, surety bond, or collateral. The types of securities available to the Board for investment are authorized by Minn. Stat. §§ 118A.04 and 118A.05.

Additional disclosures as required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, and GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, are disclosed on an entity-wide basis in the St. Louis County Comprehensive Annual Financial Report.

2. Receivables

Receivables as of December 31, 2012, were:

	Governmental Activities	Amounts Not Expected to be Collected Within One Year
Due from other governments	\$ 1,069,874	\$ -

**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

	Governmental Activities
Accounts	\$ 86,103
Salaries	14,727
Due to other governments	625,015
Total Payables	\$ 725,845

2. Operating Leases

The Board is committed under operating leases for office space and office equipment. These leases are expected to continue or be replaced with similar leases. Total costs for such leases were \$18,013 for the year ended December 31, 2012. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2013	\$ 21,760
2014	7,240
Total	\$ 29,000

3. Deferred Compensation

The Board's employees participate in St. Louis County's deferred compensation plan.

**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

2. Detailed Notes

B. Liabilities (Continued)

4. Long-Term Liabilities

Changes in compensated absences payable for 2012 were:

January 1	\$ 25,180
Net increase	<u>3,937</u>
December 31	<u>\$ 29,117</u>

No amount is expected to be paid out in 2013.

5. Risk Management

The Board 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. The Board participates in St. Louis County's dental and life insurance plans; the Board purchases commercial insurance for all other risks of loss. The Board did not have a loss exceeding the limits of insurance coverage for any of the past three years. There were no significant reductions in insurance from the prior year.

3. Employee Retirement Systems and Pension Plans

A. Plan Description

All full-time and certain part-time employees of the Carlton, Cook, Lake, and St. Louis Community Health Board 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.

**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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.

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.

**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

3. Employee Retirement Systems and Pension Plans (Continued)

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. The Carlton, Cook, Lake, and St. Louis Community Health Board 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.

The Carlton, Cook, Lake, and St. Louis Community Health Board 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

The Carlton, Cook, Lake, and St. Louis Community Health Board'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>
\$ 17,879	\$ 12,902	\$ 13,413

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

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SUPPLEMENTARY INFORMATION

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**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

EXHIBIT A-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Shared Revenue	
State	
PERA rate reimbursement	<u>\$ 1,563</u>
Grants	
State	
Minnesota Department of Health	\$ 1,632,868
Human Services	<u>343,551</u>
Total state	<u>\$ 1,976,419</u>
Federal	
Special Supplemental Nutrition Program for Women, Infants, and Children	\$ 1,063,205
Centers for Disease Control and Prevention - Investigations and Technical Assistance	1,725
Universal Newborn Hearing Screening	2,425
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	81,337
Immunization Cooperative Agreements	1,300
National Public Health Improvement Initiative	403
Block Grants for the Prevention and Treatment of Substance Abuse	111,256
Temporary Assistance for Needy Families (TANF)	386,667
Medical Assistance Program	343,551
Public Health Emergency Preparedness	201,134
Grants to States to Support Oral Health Workforce Activities	122,735
Community Transformation Grant	307,125
Maternal and Child Health Services Block Grant	<u>331,307</u>
Total federal	<u>\$ 2,954,170</u>
Total Intergovernmental Revenue	<u><u>\$ 4,932,152</u></u>

**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

EXHIBIT A-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	<u>\$ 1,063,369</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	\$ 201,134
Grants to States to Support Oral Health Workforce Activities	93.236	79,523
Universal Newborn Hearing Screening	93.251	2,425
Immunization Cooperative Agreements	93.268	1,300
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	1,725
PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Prevention and Public Health Funds	93.531	310,643
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	120,973
PPHF 2012: National Public Health Improvement Initiative	93.507	403
Temporary Assistance for Needy Families	93.558	386,667
Maternal and Child Health Services Block Grant to the States	93.994	331,307
Passed Through Minnesota Department of Human Services Medical Assistance Program	93.778	251,765
Block Grants for the Prevention and Treatment of Substance Abuse	93.959	<u>104,194</u>
Total U.S. Department of Health and Human Services		<u>\$ 1,792,059</u>
Total Federal Awards		<u>\$ 2,855,428</u>

**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Carlton, Cook, Lake, and St. Louis Community Health Board. The Board's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Carlton, Cook, Lake, and St. Louis Community Health Board under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Carlton, Cook, Lake, and St. Louis Community Health Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Carlton, Cook, Lake, and St. Louis Community Health Board.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers were not assigned by the pass-through agencies.

**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 2,954,170
Grants received more than 90 days after year-end, deferred in 2012	
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	39,636
PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - Financed Solely by 2012 Prevention and Public Health Funds	3,518
Special Supplemental Nutrition Program for Women, Infants, and Children	164
Grants deferred in 2011, recognized as revenue in 2012	
Medical Assistance Program	(91,786)
Block Grants for the Prevention and Treatment of Substance Abuse	(7,062)
Grants to States to Support Oral Health Workforce Activities	(43,212)
	\$ 2,855,428
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 2,855,428

5. Subrecipients

Of the expenditures presented in the schedule, the Carlton, Cook, Lake, and St. Louis Community Health Board provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$ 1,063,369
93.069	Public Health Emergency Preparedness	201,134
93.236	Grants to States to Support Oral Health Workforce Activities	79,523
93.251	Universal Newborn Hearing Screening	2,425
93.268	Immunization Cooperative Agreements	1,300
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	1,725
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	120,973
93.507	PPHF 2012: National Public Health Improvement Initiative	403
93.531	PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - Financed Solely by 2012 Prevention and Public Health Funds	310,643
93.558	Temporary Assistance for Needy Families	386,667
93.778	Medical Assistance Program	249,862
93.994	Maternal and Child Health Services Block Grant to the States	304,071
	Total	\$ 2,722,095

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**CARLTON, COOK, LAKE, AND ST. LOUIS
COMMUNITY HEALTH BOARD
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

PPHF 2012: Community Transformation Grants and National
Dissemination and Support for Community Transformation
Grants - Financed Solely by 2012 Prevention and Public Health
Funds

CFDA #93.531

Temporary Assistance for Needy Families

CFDA #93.558

Medical Assistance Program

CFDA #93.778

The threshold for distinguishing between Types A and B programs was \$300,000.

The Carlton, Cook, Lake, and St. Louis Community Health Board qualified as a low-risk auditee? **Yes**

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 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 the Community Health Board'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, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible.

Context: The size of the Carlton, Cook, Lake, and St. Louis Community Health Board and its staffing limits the internal control that management can design and implement into the organization. Without proper segregation of duties, errors or irregularities may not be detected timely.

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

Cause: The size of the Community Health Board and its staffing limits the internal control that management can design and implement into the organization.

Recommendation: Management should be aware that segregation of duties is not adequate from an internal control point of view. We recommend the Board of Directors be mindful that limited staffing causes inherent risks in safeguarding the Carlton, Cook, Lake, and St. Louis Community Health Board's assets and the proper reporting of its financial activity. We recommend the Board of Directors continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

The Carlton, Cook, Lake and St. Louis Community Health Board is aware of the internal control situation and is in continuous review of the Board's operations. The CHB staff is building in additional checks and balances through the Mitchell-Humphrey Financial System to make sure that every expense and revenue is correctly coded. No formal completion date is applicable.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

12-1 Subrecipient Monitoring

Programs: U.S. Department of Health and Human Services' PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Prevention and Public Health Funds (CFDA No. 93.531).

Pass-Through Agency: Minnesota Department of Health

Criteria: OMB Circular A-133, Subpart D, § .400(d), identifies responsibilities for pass-through entities that provide federal awards to subrecipients. Ensuring that subrecipients expending \$500,000 or more in federal awards have had the required audits performed and, if applicable, requiring subrecipients to take prompt corrective action on any audit findings are included in these responsibilities.

Condition: The Community Health Board has selected several non-governmental organizations to act as subrecipients as part of administering the Community Transformation Grants. The Community Health Board did not perform procedures to determine if these organizations had sufficient federal expenditures in 2012 to require an audit in accordance with OMB Circular A-133 and did not obtain and review the audit reports of those organizations.

Questioned Costs: None

Context: Typically, the Community Health Board acts as a pass-through organization for federal funds which are passed through to the counties which make up the membership of the Board. The Community Health Board has procedures in place to receive and review audit reports for the counties which make up its membership. However, these procedures were not updated to account for subrecipients outside of the member counties.

Effect: The Community Health Board does not have adequate procedures in place to ensure that all of its subrecipients which are required to obtain audits in accordance with OMB Circular A-133 have received the required audits and to obtain and review the audit reports of those subrecipients.

Cause: The Community Health Board did not update the procedures performed as part of its subrecipient monitoring to account for subrecipients which are not member counties.

Recommendation: We recommend that the Community Health Board revise its subrecipient monitoring procedures to provide assurance that all subrecipients which are required to obtain audits performed according to OMB Circular A-133 have received the required audits and to obtain and review the audit reports of those subrecipients.

Corrective Action Plan:

Name of Contact Persons Responsible for Corrective Action:

*Julie Myhre, Director
Stacy Stuber, Financial Specialist*

Corrective Action Planned:

The CHB staff will perform subrecipient monitoring procedures for all organizations that are unable to be classified as vendors/contractors.

CHB staff will review financial and progress reports from the subrecipients, and obtain the subrecipient's audit report to review it for any findings upon which the CHB may have to act. Language is currently referenced in each contract informing subrecipients of the requirement to have a Single Audit in accordance with OMB Circular A-133 if expenditures are greater than \$500,000. These entities will also need to provide the CHB copies of audit reports upon completion of the audit. Additional procedures could be added dependent upon the subrecipient's level of risk.

Anticipated Completion Date:

Budget Policy Change will be completed by December 31, 2013, and no formal completion date is applicable.



REBECCA OTTO
STATE AUDITOR

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

Board of Directors
Carlton, Cook, Lake, and St. Louis
Community Health Board

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of the Carlton, Cook, Lake, and St. Louis Community Health Board as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Community Health Board's basic financial statements, and have issued our report thereon dated September 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Carlton, Cook, Lake, and St. Louis Community Health Board's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Community Health Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Community Health Board's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 over financial

reporting such that there is a reasonable possibility that a material misstatement of the Community Health Board's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 96-1, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Carlton, Cook, Lake, and St. Louis Community Health Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

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 and public indebtedness because these areas did not apply to the Carlton, Cook, Lake, and St. Louis Community Health Board.

In connection with our audit, nothing came to our attention that caused us to believe that the Carlton, Cook, Lake, and St. Louis Community Health Board 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 Community Health Board's noncompliance with the above referenced provisions.

Other Matters

The Carlton, Cook, Lake, and St. Louis Community Health Board's response to the internal control finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The Community Health Board's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the Community Health Board's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Community Health Board's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 24, 2013

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of Directors
Carlton, Cook, Lake, and St. Louis
Community Health Board

Report on Compliance for Each Major Federal Program

We have audited the Carlton, Cook, Lake, and St. Louis Community Health Board's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Community Health Board's major federal programs for the year ended December 31, 2012. The Carlton, Cook, Lake, and St. Louis Community Health Board's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Carlton, Cook, Lake, and St. Louis Community Health Board's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance

with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Carlton, Cook, Lake, and St. Louis Community Health Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Community Health Board's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the Carlton, Cook, Lake, and St. Louis Community Health Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the Carlton, Cook, Lake, and St. Louis Community Health Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Community Health Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Community Health Board's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 12-1, that we consider to be a significant deficiency.

The Carlton, Cook, Lake, and St. Louis Community Health Board's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. The Carlton, Cook, Lake, and St. Louis Community Health Board's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 24, 2013