

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**MEEKER-MCLEOD-SIBLEY**  
**COMMUNITY HEALTH SERVICES**  
**HUTCHINSON, MINNESOTA**

YEAR ENDED DECEMBER 31, 2011

## **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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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](http://www.auditor.state.mn.us).

**MEEKER-MCLEOD-SIBLEY  
COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

**Year Ended December 31, 2011**



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

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

ORGANIZATION  
2011

Office	Name
<b>Board Members</b>	
<b>McLeod County Commissioners</b>	
Vice Chair	Raymond Bayerl
Member	Paul Wright
Member	Beverly Wangerin
Member	Kermit Terlinden
Member	Sheldon Nies
<b>Meeker County Commissioners</b>	
Member	Tim Benoit
Member	Ron Kutzke
Member	James Swenson
Secretary	Wally Strand
Member	David Gabrielson
<b>Sibley County Commissioners</b>	
Member	Harold Pettis
Member	Joy Cohrs
Chair	Jim Swanson
Member	Jim Nytes
Member	William Pinske
<b>Fiscal Officer</b>	Cindy Schultz
<b>Management Team</b>	
McLeod County Public Health Director	Kathy Nowak
Meeker County Public Health Director	Diane Winter
Sibley County Public Health Director	Laura Reid
Community Health Services Director	Allie Freidrichs

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Community Health Board  
Meeker-McLeod-Sibley Community  
Health Services

We have audited the accompanying financial statements of the governmental activities and the General Fund of Meeker-McLeod-Sibley Community Health Services as of and for the year ended December 31, 2011, which collectively comprise the Health Services' basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Meeker-McLeod-Sibley Community Health Services' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Meeker-McLeod-Sibley Community Health Services as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Meeker-McLeod-Sibley Community Health Services adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended December 31, 2011. GASB Statement 54 provides clearer fund balance classifications that can be more consistently applied and clarifies existing governmental fund type definitions.

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Meeker-McLeod-Sibley Community Health Services' basic financial statements as a whole. The other schedules, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The schedules have 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 presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 10, 2012, on our consideration of Meeker-McLeod-Sibley Community Health Services' 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 10, 2012

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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## **BASIC FINANCIAL STATEMENTS**

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

*EXHIBIT 1*

**GENERAL FUND BALANCE SHEET AND GOVERNMENTAL ACTIVITIES  
STATEMENT OF NET ASSETS WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
DECEMBER 31, 2011**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<u>Assets</u>			
Cash and pooled investments	\$ 205,650	\$ -	\$ 205,650
Due from other governments	406,308	-	406,308
<b>Total Assets</b>	<b>\$ 611,958</b>	<b>\$ -</b>	<b>\$ 611,958</b>
 <u>Liabilities and Fund Balance/Net Assets</u>			
Liabilities			
Current liabilities			
Salaries payable	\$ 5,168	\$ -	\$ 5,168
Accrued payroll taxes	392	-	392
Other accrued liabilities	2,094	-	2,094
Due to other governments	421,703	-	421,703
Unearned revenue	32,005	-	32,005
Noncurrent liabilities			
Due within one year	-	1,524	1,524
Due in more than one year	-	723	723
<b>Total Liabilities</b>	<b>\$ 461,362</b>	<b>\$ 2,247</b>	<b>\$ 463,609</b>
<b>Fund Balance</b>			
Assigned	150,596	(150,596)	
<b>Net Assets</b>			
Unrestricted		148,349	148,349
<b>Total Liabilities and Fund Balance/Net Assets</b>	<b>\$ 611,958</b>	<b>\$ -</b>	<b>\$ 611,958</b>
 <b>Reconciliation of the General Fund Balance to Net Assets</b>			
Fund Balance - General Fund			\$ 150,596
Compensated absences liabilities are not due and payable in the current period and, therefore, are not reported in governmental funds			(2,247)
<b>Net Assets - Governmental Activities</b>			<b>\$ 148,349</b>

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

*EXHIBIT 2*

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE AND GOVERNMENTAL ACTIVITIES  
STATEMENT OF ACTIVITIES WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b>Revenues</b>			
Intergovernmental	\$ 1,779,761	\$ (48,595)	\$ 1,731,166
Gifts and contributions	6,000	-	6,000
<b>Total Revenues</b>	<b>\$ 1,785,761</b>	<b>\$ (48,595)</b>	<b>\$ 1,737,166</b>
<b>Expenditures/Expenses</b>			
<b>Health</b>			
Current	\$ 263,284	\$ 2,247	\$ 265,531
Intergovernmental	1,510,850	-	1,510,850
<b>Total Expenditures/Expenses</b>	<b>\$ 1,774,134</b>	<b>\$ 2,247</b>	<b>\$ 1,776,381</b>
<b>Net Change in Fund Balance/Net Assets</b>	<b>\$ 11,627</b>	<b>\$ (50,842)</b>	<b>\$ (39,215)</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>138,969</b>	<b>48,595</b>	<b>187,564</b>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 150,596</b>	<b>\$ (2,247)</b>	<b>\$ 148,349</b>
 <b>Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities of Governmental Activities</b>			
Net Change in Fund Balance			\$ 11,627
 In the funds, 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.			(48,595)
 Compensated absences expenses are reported in the statement of activities and do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.			(2,247)
 <b>Change in Net Assets of Governmental Activities</b>			<b>\$ (39,215)</b>

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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

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1. Summary of Significant Accounting Policies

Meeker-McLeod-Sibley Community Health Services' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Health Services are discussed below.

A. Financial Reporting Entity

The Meeker-McLeod-Sibley Community Health Board was established pursuant to Minn. Stat. §§ 145A.09-145A.14 and a joint powers agreement as the Meeker-McLeod-Sibley Health Services Board effective April 1, 1980. This joint powers agreement was revised, effective April 19, 1990, and the Board was renamed the Meeker-McLeod-Sibley Community Health Board. The Community Health Board consists of 15 members, five each from Meeker, McLeod, and Sibley Counties. The primary function of the joint venture is to provide health services and to promote efficiency and economy in the delivery of health services.

McLeod County, in an agent capacity, reports the cash transactions of the Health Services as an agency fund on its annual financial statements.

B. Basic Financial Statements

Basic financial statements include information on Meeker-McLeod-Sibley Community Health Services' activities as a whole and information on the General Fund of the Health Services. These separate presentations are reported in different columns on Exhibits 1 and 2. Each of the exhibits starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of Meeker-McLeod-Sibley Community Health Services as a whole.

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

The governmental activities columns are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Meeker-McLeod-Sibley Community Health Services' net assets are reported as unrestricted net assets. Meeker-McLeod-Sibley Community Health Services first utilizes restricted resources to finance qualifying activities. The statement of activities demonstrates the degree to which the expenses of Meeker-McLeod-Sibley Community Health Services 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 of accounting and report current financial resources.

C. Measurement Focus and Basis of Accounting

The government-wide 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. 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. Meeker-McLeod-Sibley Community Health Services considers all revenues as available if collected within 90 days after the end of the current period. Charges for services are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred.

When both restricted and unrestricted resources are available for use, it is the Health Services' policy to use restricted resources first and then unrestricted resources as needed.

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Due From/To Other Governments

Due from/to other governments amounts represent receivables and payables related to grants from other federal, state, and local governments for the program administration.

2. Capital Assets

Capital assets are recorded in the governmental activities column in the statement of net assets. Meeker-McLeod-Sibley Community Health Services defines capital assets 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.

Capital assets of Meeker-McLeod-Sibley Community Health Services are depreciated using the straight-line method over an estimated five-year useful life.

3. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation, comp time, vested sick leave balances, and sick leave balances in excess of the maximum balance. Compensated absences are accrued when incurred in the government-wide 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.

4. Deferred Revenue

Meeker-McLeod-Sibley Community Health Services' fund and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenue not considered to be available to liquidate liabilities of the current period.

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

5. Classification of Net Assets

Net assets in the government-wide statements are classified in the following category:

Unrestricted - the amount of net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted.

6. Classification of Fund Balance

Fund balance is divided into classifications based primarily on the extent to which the Health Services is bound to observe restraints upon the use of resources in the General Fund.

Assigned - Amounts in the assigned fund balance classification Meeker-McLeod-Sibley Community Health Services intends to use for specific purposes but does not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Health Services Board or the McLeod County Auditor-Treasurer, who has been delegated that authority as fiscal agent by Board resolution.

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.

7. Budgetary Information

The Health Services adopts estimated revenue and expenditure budgets for the General Fund on the modified accrual basis. The legal level of budgetary control is the function level. Appropriations lapse at year-end. The budgets may be amended or modified at any time by the Community Health Board.



**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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2. Stewardship, Compliance and Accountability

Expenditures in Excess of Budget

For the year ended December 31, 2011, the General Fund expenditures of \$1,774,134 exceeded the final budget of \$1,434,407 by \$339,727.

3. Detailed Notes

A. Assets

1. Deposits and Investments

Cash is on deposit with McLeod County. Cash transactions are administered by the McLeod County Treasurer who is, according to Minn. Stat. §§ 118A.02 and 118A.04, authorized to deposit cash in financial institutions designated by the County Board. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral, a requirement with which the County was in compliance at December 31, 2011.

2. Receivables

The Health Services did not have any receivables scheduled to be collected beyond one year as of December 31, 2011.

B. Liabilities

1. Deferred Revenue

The Health Services reported \$32,005 in deferred revenue - unearned in the General Fund for grant money advanced to them, but not spent as of year-end.

2. Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ -	\$ 2,247	\$ -	\$ 2,247	\$ 1,524

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Meeker-McLeod-Sibley Community Health Services 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 hired prior to July 1, 1989, 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.

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

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](http://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. The Meeker-McLeod-Sibley Community Health Services 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 Health Services is required to contribute the following percentages of annual covered payroll in 2011:

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

The Health Services' contributions for the years ending December 31, 2011, for the General Employees Retirement Fund were \$8,904.

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

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

A. Risk Management

Meeker-McLeod-Sibley Community Health Services is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; or natural disasters. The Health Services has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT) to cover its property and casualty liabilities. There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

The Property and Casualty Division of MCIT is self-sustaining, and the Health Services pays an annual premium to cover current and future losses. The 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 the Health Services in a method and amount to be determined by MCIT.

B. Claims and Litigation

Meeker-McLeod-Sibley Community Health Services, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Health Services' attorney estimates that the potential claims against the Health Services resulting from litigation not covered by insurance would not materially affect the financial statements of the Health Services.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

*EXHIBIT A-1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 1,436,070	\$ 1,436,070	\$ 1,779,761	\$ 343,691
<b>Expenditures</b>				
<b>Health</b>				
Community Health Services Grant	\$ 284,923	\$ 284,923	\$ 292,511	\$ (7,588)
Centers for Disease Control and Prevention	65,161	65,161	64,280	881
Early Hearing Detection and Intervention	3,000	3,000	2,100	900
Women, Infants, and Children Maternal and Child Health Services	376,974	376,974	518,563	(141,589)
Block Grant	82,344	82,344	63,626	18,718
Family Planning Special Projects	84,780	84,780	105,566	(20,786)
Tobacco-Free Communities	-	-	13,465	(13,465)
Immunization Grants	3,000	3,000	2,250	750
Healthy Communities Activities	6,000	6,000	16,315	(10,315)
Home Visiting Temporary Assistance for Needy Families	95,011	95,011	60,701	34,310
Drug-Free Communities	-	-	133,808	(133,808)
Fetal Alcohol Program	10,000	10,000	37,105	(27,105)
Child and Teen Checkups Medical Assistance Program	171,826	171,826	164,305	7,521
Immunization Grant - ARRA	-	-	14,168	(14,168)
Public Health Emergency Preparedness Grants	35,612	35,612	41,252	(5,640)
Statewide Health Improvement Program	215,776	215,776	244,119	(28,343)
<b>Total Expenditures</b>	<b>\$ 1,434,407</b>	<b>\$ 1,434,407</b>	<b>\$ 1,774,134</b>	<b>\$ (339,727)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 1,663</b>	<b>\$ 1,663</b>	<b>\$ 11,627</b>	<b>\$ 9,964</b>
<b>Fund Balance - January 1</b>	<b>138,969</b>	<b>138,969</b>	<b>138,969</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 140,632</b>	<b>\$ 140,632</b>	<b>\$ 150,596</b>	<b>\$ 9,964</b>

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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1. Budgetary Information

Meeker-McLeod-Sibley Community Health Services adopts estimated revenue and expenditure budgets for the General Fund on the modified accrual basis. The legal level of budgetary control is the function level. Appropriations and encumbrances lapse at year-end. The budgets may be amended or modified at any time by the Community Health Board.

2. Excess of Expenditures Over Appropriations

In the General Fund, the expenditures exceeded appropriations for the year ended December 31, 2011, by \$339,727.

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## **OTHER SCHEDULES**

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

***EXHIBIT B-1***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**Grants**

**State**

Minnesota Department of Health	\$ 615,280
Human Services	<u>106,450</u>
<b>Total state</b>	<b><u>\$ 721,730</u></b>

**Federal**

**Department of Agriculture**

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	\$ 515,814
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**Department of Health and Human Services**

Drug-Free Communities Support Program Grants	133,808
Centers for Disease Control and Prevention	62,037
Block Grants for Prevention and Treatment of Substance Abuse	3,994
TANF Home Visiting (Temporary Assistance for Needy Families)	93,813
Child and Teen Checkups MA (Medical Assistance Program)	106,451
Immunization Grants	2,250
Immunization Grant - ARRA	14,168
Universal Newborn Hearing Screening	2,100
PHER Grants (Public Health Emergency Preparedness)	41,252
Maternal and Child Health Services Block Grant (MCH)	<u>82,344</u>

<b>Total federal</b>	<b><u>\$ 1,058,031</u></b>
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<b>Total Intergovernmental Revenue</b>	<b><u><u>\$ 1,779,761</u></u></b>
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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

*EXHIBIT B-2*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	<u>\$ 515,814</u>
<b>U.S. Department of Health and Human Services</b>		
Direct		
Drug-Free Communities Support Program Grants	93.276	\$ 133,808
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	41,252
Universal Newborn Hearing Screening	93.251	2,100
Immunization Cluster		
Immunization Grants	93.268	2,250
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	62,037
Temporary Assistance for Needy Families	93.558	93,813
Immunization Cluster		
Immunization - ARRA	93.712	14,168
Maternal and Child Health Services Block Grant to the States	93.994	82,344
Passed Through Minnesota Department of Human Services		
Medical Assistance Program	93.778	106,451
Block Grants for Prevention and Treatment of Substance Abuse	93.959	<u>3,994</u>
<b>Total U.S. Department of Health and Human Services</b>		<u>\$ 542,217</u>
<b>Total Federal Awards</b>		<u>\$ 1,058,031</u>

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Meeker-McLeod-Sibley Community Health Services. The Health Services' 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 Meeker-McLeod-Sibley Community Health Services under programs of the federal government for the year ended December 31, 2011. 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 Meeker-McLeod-Sibley Community Health Services, it is not intended to and does not present the financial position or changes in net assets of Meeker-McLeod-Sibley Community Health Services.

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 grant numbers were not assigned by the pass-through agencies.

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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4. Subrecipients

Of the expenditures presented in the schedule, Meeker-McLeod-Sibley Community Health Services provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$ 515,814
93.276	Drug-Free Communities Support Program Grants	133,808
93.069	Public Health Emergency Preparedness	41,106
93.251	Universal Newborn Hearing Screening	2,100
93.268	Immunization Grants	2,250
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	60,033
93.558	Temporary Assistance for Needy Families	60,701
93.712	Immunization - ARRA	14,168
93.994	Maternal and Child Health Services Block Grant to the States	63,626
93.778	Medical Assistance Program	67,658
93.959	Block Grants for Prevention and Treatment of Substance Abuse	2,578
Total		<u>\$ 963,842</u>

5. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

6. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Immunization Cluster	\$ 16,418
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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

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

Internal control over financial reporting:

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

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? **Unqualified**

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

The major program is:

Special Supplemental Nutrition Program for Women,  
Infants, and Children

CFDA No. 10.557

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

Meeker-McLeod-Sibley Community Health Services qualified as low-risk auditee? **Yes**

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

None.

## III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

### ITEM ARISING THIS YEAR

#### 11-1 Subrecipient Monitoring

**Program:** Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA No. 10.557)

**Criteria:** OMB Circular A-133, Subpart C, § .400, indicates auditee responsibilities for entities that provide federal awards to subrecipients as a pass-through entity. Included in these responsibilities are: (1) at the time of the award, identifying to the subrecipient the federal award information (CFDA title and number, award name, name of federal agency, and applicable compliance requirements); (2) monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers the federal award in compliance with federal requirements; (3) ensuring that required audits are performed, if applicable, and requiring the subrecipient to take prompt corrective action on any audit findings; and (4) evaluating the impact of subrecipient activities on the Health Services' ability to comply with applicable federal regulations.

**Condition:** Based on our review of the documentation of subrecipient monitoring performed, the monitoring of subrecipient's activities to provide reasonable assurance that the subrecipients administered the federal award in compliance with federal requirements was not performed in a timely manner; monitoring activities for 2011 were not performed until February 2012.

**Questioned Costs:** None.

**Context:** Meeker-McLeod-Sibley Community Health Services provided federal awards to subrecipients for the Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA No. 10.557) during the year ended December 31, 2011.

**Cause:** This is the first year for the Health Services' Director, and a new process for gathering randomly selected case files for monitoring took more time than anticipated.

**Recommendation:** We recommend that Meeker-McLeod-Sibley Community Health Services develop a system and written policies and procedures to ensure compliance requirements over subrecipients are met and they are monitored in a timely manner in accordance with OMB Circular A-133.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Allie Freidrichs, Meeker-McLeod-Sibley Community Health Services Director*

Corrective Action Planned:

*Meeker-McLeod-Sibley Community Health Services (MMS CHS) recognizes the importance of sub-recipient monitoring. The MMS CHS Director will re-implement the sub-recipient monitoring of activities throughout the year.*

Anticipated Completion Date:

*WIC sub-recipient monitoring will be implemented immediately, along with the other grants.*

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE 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***

Community Health Board  
Meeker-McLeod-Sibley Community  
Health Services

We have audited the financial statements of the governmental activities and the General Fund of Meeker-McLeod-Sibley Community Health Services as of and for the year ended December 31, 2011, which collectively comprise the Health Services' basic financial statements, and have issued our report thereon dated September 10, 2012. 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.

#### Internal Control Over Financial Reporting

Management of Meeker-McLeod-Sibley Community Health Services is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Meeker-McLeod-Sibley Community Health Services' internal control over financial reporting as a basis for designing our auditing procedures 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 Health Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Services' 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 Health Services' financial statements will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Meeker-McLeod-Sibley Community Health Services' 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

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* 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 study included all of the listed categories, except that we did not test for deposits and investments and claims and disbursements because these categories were tested in conjunction with the McLeod County audit; McLeod County is the fiscal agent. We also did not test for contracting and bidding and public indebtedness because neither of these categories applied to Meeker-McLeod-Sibley Community Health Services.



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

This report is intended solely for the information and use of the Community Health Board, management, others within Meeker-McLeod-Sibley Community Health Services, and federal awarding agencies and pass-through entities 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

September 10, 2012

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### **REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Community Health Board  
Meeker-McLeod-Sibley Community  
Health Services

#### Compliance

We have audited Meeker-McLeod-Sibley Community Health Services' 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 its major federal program for the year ended December 31, 2011. Meeker-McLeod-Sibley Community Health Services' major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Health Services' management. Our responsibility is to express an opinion on the Health Services' compliance based on our audit.

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 Meeker-McLeod-Sibley Community Health Services' 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. Our audit does not provide a legal determination on the Health Services' compliance with those requirements.

In our opinion, Meeker-McLeod-Sibley Community Health Services complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

### Internal Control Over Compliance

Management of Meeker-McLeod-Sibley Community Health Services is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Health Services' internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 Health Services' 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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 11-1. 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 attention by those charged with governance.

Meeker-McLeod-Sibley Community Health Services' corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Health Services' corrective action plan and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Community Health Board, management and others within the Health Services, and federal awarding agencies and pass-through entities 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

September 10, 2012

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR