

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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

The State Auditor performs approximately 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

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

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

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

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**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

Year Ended December 31, 2004



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

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**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

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**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2004

	<u>Position</u>	<u>County</u>	<u>Term Expires</u>
Board of Health			
Marj Johnson	Secretary	Becker	2004
Dave Seaberg	Member	Becker	2005
Evonne McTaggart	Member	Becker	2004
Karen Ahmann	Chair	Mahnomen	2004
Karla Johanning	Member	Mahnomen	2006
Richard Andrig	Vice Chair	Norman	2005
Eldon Hetland	Member	Norman	2004
CHS Administrator/Director			
Nancy Bauer			Indefinite
Advisory Committee			
Reva Husby, RN		Becker	2004
Duane Wething		Becker	2004
Rauha Hilukka		Becker	2005
Doris Stock, RN		Mahnomen	2005
Charlie Pazdernik		Mahnomen	2004
Betty Annerud		Mahnomen	2005
Janice Habedank		Norman	2005
Joy Hollinshead, DDS		Norman	2004
Cammie Sorenson		Norman	2005

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STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Multi-County Board of Health
Detroit Lakes, Minnesota

We have audited the basic financial statements of the Multi-County Nursing Service as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the management of the Multi-County Nursing Service. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Multi-County Nursing Service at December 31, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the basic financial statements, the Multi-County Nursing Service adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in the format and content of the basic financial statements.

As noted in Note 5.D., Becker County has elected to terminate its membership in the joint powers. A transition agreement will allocate the resources of the Multi-County Nursing Service.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: March 14, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

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

The Management's Discussion and Analysis for the Multi-County Nursing Service provides an overview of the Nursing Service's financial activities for the fiscal year ended December 31, 2004. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the Multi-County Nursing Service's financial statements.

The Multi-County Board of Health is a joint powers enterprise operation of Becker, Mahnomen, and Norman Counties doing business as the Multi-County Nursing Service. The Multi-County Board of Health is the Community Health Services Agency and, as such, is responsible for providing public health services to the residents of Becker, Mahnomen, and Norman Counties. The Multi-County Nursing Service has offices in Ada, Detroit Lakes, and Mahnomen. Administrative services are provided through the Detroit Lakes office.

Becker County serves as the fiscal host for the Multi-County Nursing Service for the purpose of receiving and depositing funds. The Multi-County Nursing Service is considered a distinct and separate entity from any of the three counties, and financial accountability lies with the Multi-County Board of Health and its designated staff. The Multi-County Nursing Service is audited as a standalone subunit of local government.

Becker County has given notice of its intent to withdraw from the Joint Powers Agreement as of January 1, 2005. At that time, the Community Health Services Unit of the Becker County Human Services Department will provide public health services in Becker County under the direction of the Becker County Commissioners. Norman and Mahnomen Counties will remain as a Joint Powers enterprise organization. The Joint Powers Agreement has been amended to reflect the following name changes. The Multi-County Board of Health is now known as the Norman-Mahnomen Community Health Board doing business as Norman-Mahnomen Public Health.

These financial statements reflect the last year of the three-county joint powers agreement that created the Multi-County Board of Health back in 1977.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements of this agency. The Multi-County Nursing Service's basic financial statements consist of two parts: the financial statements and the notes to the financial statements. The Management's Discussion and Analysis (this section) is required to accompany the basic financial statements as supplementary information.

The financial statements present different views of the Multi-County Nursing Service's financial activities and consist of the following:

- The statement of net assets compares the assets and liabilities to give an overall view of the financial health of the Nursing Service.
- The statement of revenues, expenses, and changes in fund net assets provides information on an aggregate view of the Nursing Service's finances. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.
- The statement of cash flows provides sources and uses of cash for the Nursing Service.

FINANCIAL ANALYSIS

	Net Assets			
	2004	2003	Increase/ (Decrease)	% Change
Assets				
Current and other assets	\$ 510,913	\$ 575,568	\$ (64,655)	(11.2%)
Capital assets	2,354	7,388	(5,034)	(68.1%)
Total Assets	\$ 513,267	\$ 582,956	\$ (69,689)	(12%)
Liabilities				
Current liabilities	\$ 36,455	\$ 86,555	\$ (50,100)	(57.9%)
Long-term/non-current liabilities	6,984	11,615	(4,631)	(39.8%)
Total Liabilities	\$ 43,439	\$ 98,170	\$ (54,731)	(55.8%)
Net Assets				
Invested in capital assets	\$ 835	\$ 1,815	\$ (980)	(53.9%)
Unrestricted	468,993	482,971	(13,978)	(2.8%)
Total Net Assets	\$ 469,828	\$ 484,786	\$ (14,958)	(3.1%)

During 2004, the Multi-County Board of Health was preparing for the withdrawal of Becker County as of January 1, 2005. As of December 31, 2004, the capital assets reflect a transition of capital assets between the new Becker County Community Health Services Unit and the continuation of the two-county Norman-Mahnomen Community Health Board Joint Powers Agreement. The 55.8 percent decrease in liabilities reflects the reduction of staff serving Becker County and their related vacation and sick leave accruals.

Change in Net Assets

	2004	2003	Increase/ (Decrease)	% Change
Operating Revenues				
Charges for services	\$ 628,812	\$ 883,878	\$ (255,066)	(28.9%)
Miscellaneous	51,038	35,636	15,402	43.2%
Nonoperating revenues				
Property taxes	308,276	308,276	-	-
Intergovernmental	589,540	626,036	(36,496)	(5.8%)
Project income	1,090	4,450	(3,360)	(75.5%)
Loss on disposal of capital assets	(150)	-	(150)	(100%)
Total Revenues	\$ 1,578,606	\$ 1,858,276	\$ (279,670)	(15%)
Operating Expenses				
Personnel	\$ 1,223,032	\$ 1,473,109	\$ (250,077)	(17%)
Professional services	16,873	16,210	663	4.1%
Administrative				
Telephone	17,297	16,095	1,202	7.5%
Advertising	212	123	89	72.4%
Insurance	33,570	10,466	23,104	220.8%
Licenses/dues	1,413	1,834	(421)	(23%)
Postage	6,846	8,452	(1,606)	(19%)
Travel	29,456	39,653	(10,197)	(25.7%)
Supplies	91,725	41,689	50,036	120%
Equipment rental/repair	78,576	76,642	1,934	2.5%
In-kind	33,934	38,038	(4,104)	(10.8%)
Direct cost	55,307	127,252	(71,945)	(56.5%)
Miscellaneous	439	1,117	(678)	(60.7%)
Depreciation	4,884	6,661	(1,777)	(26.7%)
Total Operating Expenses	\$ 1,593,564	\$ 1,857,341	\$ (263,777)	(14.2%)
Increase (Decrease) in Net Assets	\$ (14,958)	\$ 935	\$ (15,893)	(1699.8%)

During 2004, the Board had two unusual situations occur:

- A break in at the Detroit Lakes Administrative Office occurred in April and resulted in costs in excess of what insurance covered.

- Due to the initial severe shortage of flu vaccine, MDH asked the Multi-County Nursing Service, as the local public health agency, to take on the assurance role in assisting nursing homes, hospitals, and clinics to access the flu vaccine. The general public did not access flu vaccines even after they were readily available, and the Multi-County Nursing Service ended up with a surplus of vaccines that were purchased for area clinics to use and they couldn't. The costs related to these two occurrences is as follows:

Loss on flu vaccine	\$	13,774
Loss on break-in		<u>6,156</u>
 Total Unusual Losses	 \$	 <u><u>19,930</u></u>

The \$14,958 decrease in net assets is reflective of this loss. Without these two unexpected and uncontrolled costs, the agency would have seen an increase in net assets of just over \$4,900.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

	Capital Assets at Year-End (Net of Depreciation)			
	2004	2003	Increase/ (Decrease)	% Change
Office equipment	\$ 1,443	\$ 5,424	\$ (3,981)	(73.4%)
Computer hardware	<u>911</u>	<u>1,964</u>	<u>(1,053)</u>	<u>(53.6%)</u>
Total	<u>\$ 2,354</u>	<u>\$ 7,388</u>	<u>\$ (5,034)</u>	<u>(68.1%)</u>

The Multi-County Board of Health contributed capital assets to Becker County Community Health Services. The net book value at the time of the transfer was \$150.

Debt

As of December 31, 2004, the Multi-County Nursing Service had \$1,519 in capital leases outstanding compared with \$5,573 as of December 31, 2003--a decrease of 73 percent--as shown below.

	<u>2004</u>	<u>2003</u>
Capital leases payable		
1999 Becker office copier	\$ -	\$ 3,009
2001 Norman office copier	1,519	2,564
	<u>1,519</u>	<u>5,573</u>
Total	\$ 1,519	\$ 5,573

FUTURE EVENTS

Due to the withdrawal of Becker County from the joint powers agreement, further payout of uncommitted surplus funds will be made after the audit and close out of 2004 fiscal activities. It is estimated that that amount will be around \$400,000.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designated to provide our citizens, taxpayers, customers, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact:

Jamie Hennen
Norman-Mahnomen Community Health Services Administrator
16 East 3rd Avenue North, Room 107
Ada, Minnesota 56510
218-784-5425
jamie.hennen@co.norman.mn.us

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BASIC FINANCIAL STATEMENTS

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**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

EXHIBIT 1

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

Assets

Current assets

Cash and cash equivalents	\$ 321,025
Petty cash and change funds	150
Accounts receivable (net)	85,048
Grants receivable	52,855
Contracts receivable	47,383
Prepaid items	4,452

Total current assets **\$ 510,913**

Noncurrent assets

Depreciable capital assets (net)	2,354
----------------------------------	-------

Total Assets **\$ 513,267**

Liabilities

Current liabilities

Accounts payable	\$ 3,081
Salaries payable	3,522
Payroll-related liabilities	8,657
Compensated absences payable	12,853
Due to other governments	7,148
Capital leases payable	1,194

Total current liabilities **\$ 36,455**

Noncurrent liabilities

Compensated absences payable	\$ 6,659
Capital leases payable	325

Total noncurrent liabilities **\$ 6,984**

Total Liabilities **\$ 43,439**

Net Assets

Invested in capital assets, net of related debt	\$ 835
Unrestricted	468,993

Total Net Assets **\$ 469,828**

**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

EXHIBIT 2

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

Operating Revenues	
Charges for services	\$ 344,788
Screenings	157,421
Health promotion and clinics	18,943
School services	73,726
In-kind contributions	33,934
Miscellaneous	51,038
	51,038
Total Operating Revenues	\$ 679,850
Operating Expenses	
Personnel	\$ 1,223,032
Professional services	16,873
Administrative	59,338
Travel	29,456
Materials and supplies	91,725
Equipment rental and repair	78,576
In-kind	33,934
Direct costs	55,307
Miscellaneous	439
Depreciation	4,884
	4,884
Total Operating Expenses	\$ 1,593,564
Operating Income (Loss)	\$ (913,714)
Nonoperating Revenues (Expenses)	
Property taxes	\$ 308,276
Intergovernmental	589,540
Project income	1,090
Gain (loss) on disposal of capital assets	(150)
	(150)
Total Nonoperating Revenues (Expenses)	\$ 898,756
Increase (Decrease) in Net Assets	\$ (14,958)
Net Assets - January 1	484,786
	484,786
Net Assets - December 31	\$ 469,828
	469,828

**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

EXHIBIT 3

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

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 602,627
Payments to suppliers	(367,903)
Payments to employees	(1,230,896)
	<u>\$ (996,172)</u>
Net cash provided by (used in) operating activities	
Cash Flows from Noncapital Financing Activities	
Property taxes	\$ 308,276
Intergovernmental	643,466
Project income	1,090
	<u>\$ 952,832</u>
Net cash provided by (used in) noncapital financing activities	
Cash Flows from Capital and Related Financing Activities	
Lease payments	\$ (4,054)
	<u>\$ (47,394)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	
	<u>\$ 368,569</u>
Cash and Cash Equivalents at January 1	<u>368,569</u>
Cash and Cash Equivalents at December 31	<u>\$ 321,175</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:	
Operating income	\$ (913,714)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities	
Depreciation expense	\$ 4,884
(Increase) decrease in accounts receivable	(8,302)
(Increase) decrease in contracts receivable	(34,987)
(Increase) decrease in prepaid items	788
Increase (decrease) in accounts payable	(39,336)
Increase (decrease) in salaries payable	2,258
Increase (decrease) in payroll-related liabilities	(4,691)
Increase (decrease) in compensated absences payable	(10,122)
Increase (decrease) in due to other governments	7,050
	<u>\$ (82,458)</u>
Total adjustments	<u>\$ (82,458)</u>
Net Cash Provided by Operating Activities	<u>\$ (996,172)</u>

Noncash capital and related financing:

- Multi-County Nursing Service contributed capital assets to Becker County Nursing Service. The net book value at the time of the transfer was \$150.

- In-kind revenues and expenses are not included in the cash flows statement.

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**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The Multi-County Nursing Service's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Nursing Service has the option to apply FASB pronouncements issued after that date, the Nursing Service has chosen not to do so. The more significant accounting policies established in GAAP and used by the Nursing Service are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis--for State and Local Governments*. For the first time, the financial statements include a Management's Discussion and Analysis (MD&A) section providing an analysis of the Nursing Service's overall financial position and results of operations.

This and other changes are reflected in the accompanying financial statements (including the notes to financial statements). The Nursing Service has elected to implement all provisions of the statement in the current year.

A. Financial Reporting Entity

The Multi-County Nursing Service was established pursuant to Minn. Stat. ch. 145A and a joint powers agreement effective July 1, 1977. The Multi-County Board of Health consists of seven members, three from Becker County and two each from Norman and Mahnommen Counties. The Board includes two health providers, two consumers, and one county commissioner from each participating county.

The primary functions of the Multi-County Nursing Service are to prevent illness and to promote efficiency and economy in the delivery of community health services.

The Multi-County Nursing Service is not a component unit of any of the member counties, nor does it have any component units. The Nursing Service's financial statements will not be included in any member county's financial statements.

**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Becker County, as an agent, reports the cash transactions of the Multi-County Nursing Service in an agency fund on its annual financial statements.

Joint Ventures

The Nursing Service participates in three joint ventures which are described in Note 5.B.

B. Basic Financial Statements

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

C. Measurement Focus and Basis of Accounting

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Receivables and Payables

All receivables are shown net of an allowance for uncollectibles.

**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Prepaid Items

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

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements. Capital assets are defined by the Nursing Service 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 market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the Nursing Service did not have any capitalized interest.

Property, plant, and equipment of the Nursing Service is depreciated using the straight-line method over the following estimated useful lives:

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

5. Compensated Absences

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

**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. 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.

2. Detailed Notes

A. Assets

1. Deposits and Investments

The Nursing Service's total cash and cash equivalents are reported as follows:

Cash and cash equivalents	\$ 321,025
Petty cash and change funds	<u>150</u>
Total Cash and Cash Equivalents	<u>\$ 321,175</u>

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Nursing Service to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board of Health. At December 31, 2004, the carrying amount of the Nursing Service's deposits totaled \$321,025. The bank balance deposit amount was \$321,025. Minnesota statutes require that all Nursing Service deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 100,000
Collateralized with securities held by the pledging financial institution's agent in the County's name	-
Total covered deposits	\$ 100,000
Uncollateralized	221,025
Total	\$ 321,025

2. Receivables

Receivables as of December 31, 2004, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Accounts	\$ 85,048	\$ -
Grants	52,855	-
Contracts	47,383	-
Total	\$ 185,286	\$ -

**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

2. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated Machinery, furniture, and equipment	\$ 49,839	\$ -	\$ 18,996	\$ 30,843
Less: accumulated depreciation for Machinery, furniture, and equipment	42,451	4,884	18,846	28,489
Total Capital Assets Depreciated, Net	\$ 7,388	\$ (4,884)	\$ 150	\$ 2,354

Depreciation expense for the year was \$4,884.

B. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

	Total Payables
Accounts	\$ 3,081
Salaries	3,522
Payroll-related	8,657
Due to other governments	7,148
Total Payables	\$ 22,408

**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

2. Detailed Notes

B. Liabilities (Continued)

2. Capital Leases

The Nursing Service has entered into a lease agreement as lessee for financing the acquisition of certain equipment. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The capital lease consists of the following at December 31, 2004:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
2001 copier	2006	Monthly	\$ 111	\$ 4,793	<u>\$ 1,519</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2004, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2005	\$ 1,329
2006	<u>332</u>
Total minimum lease payments	\$ 1,661
Less: amount representing interest	<u>142</u>
Present Value of Minimum Lease Payments	<u>\$ 1,519</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

2. Detailed Notes

B. Liabilities

3. Changes in Long-Term Liabilities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for					
Capital leases	\$ 5,573	\$ -	\$ 4,054	\$ 1,519	\$ 1,194
Compensated absences	29,634	35,069	45,191	19,512	12,853
Business-Type Activity Long-Term Liabilities	<u>\$ 35,207</u>	<u>\$ 35,069</u>	<u>\$ 49,245</u>	<u>\$ 21,031</u>	<u>\$ 14,047</u>

3. Employee Retirement Systems and Pension Plans

A. Plan Description

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

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

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

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

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are amended by the State Legislature. The Nursing Service makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. The Nursing Service is required to contribute the following percentages of annual covered payroll:

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

The Nursing Service's contributions for the years ending December 31, 2004, 2003, and 2002, were \$51,510, \$61,506, and \$61,393, respectively, equal to the contractually required contributions for each year as set by state statute.

**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

4. Risk Management

The Multi-County Nursing Service 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 for which the Nursing Service carries commercial insurance. The Nursing Service has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The Nursing Service is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the Nursing Service carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 and \$760,000 per claim in 2004 and 2005, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining and the County 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 County in a method and amount to be determined by MCIT.

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

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

B. Joint Ventures

Becker County Children's Initiative

The Becker County Children's Initiative (BCCI) collaborative was established in 1995, under the authority of the Joint Powers Act, pursuant to Minn. Stat. §§ 471.59 and 124D.23. The BCCI includes Becker County, Independent School District Nos. 21, 22, and 23; the White Earth Tribal Council; and the Multi-County Board of Health. The purpose of the BCCI is to provide coordinated family services and to commit resources to an integrated fund.

Control of the BCCI is vested in a Board of Directors. The Multi-County Nursing Service has two members on the Board.

In the event of a withdrawal from the Becker County Children's Initiative collaborative, the withdrawing party shall give 180 days of notice. This also means that the BCCI may no longer meet the requirements of Minn. Stat. § 124D.23 as a family service collaborative. The withdrawing party shall not be entitled to any compensation as long as the BCCI continues its existence. Should the BCCI cease to exist, all surplus funds shall be returned to the parties in proportion to their contributions. All other assets will be disposed of by law to best accomplish the continuing purposes of the BCCI.

Mahnomen County Interagency Collaborative

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

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

**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Mahnomen County Interagency Collaborative (Continued)

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

Financing is provided by state and federal grants. Mahnomen County Human Services is the fiscal agent for the MCIC. During 2004, the Multi-County Nursing Service did not contribute any funds to the MCIC.

The Children's Collaborative (Serving Norman County Families)

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

Control of the Children's Collaborative is vested in a Board of Directors, which is comprised of one member appointed by each member party.

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

Financing is provided by state and federal grants and contributions from its member parties. Norman County, in an agent capacity, reports the cash transactions of the Collaborative as an agency fund on its financial statements. During 2004, the Multi-County Nursing Service did not contribute to the Collaborative.

**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

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

C. Operating Budget

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	\$ 878,603	\$ 679,850	\$ (198,753)
Operating Expenses	1,549,731	1,593,564	(43,833)
Operating Income (Loss)	\$ (671,128)	\$ (913,714)	\$ (242,586)
Nonoperating Revenues (Expenses)	671,128	898,756	227,628
Net Income (Loss)	\$ -	\$ (14,958)	\$ (14,958)

D. Subsequent Event

Intent to Withdraw

Becker County terminated its membership in the Multi-County Nursing Service Joint Powers on March 9, 2004, with a separation date as of January 1, 2005. Becker County shall provide public health services, formerly provided by Multi-County Nursing Service, to its citizens through its own agency. The Multi-County Nursing Service will continue to provide public health services to Mahnomen and Norman Counties as Norman-Mahnomen Community Health Board.

Representatives of all three counties have signed a transition agreement. The agreement stipulates remaining funds will be allocated among all three counties pursuant to the percentages set forth in the Joint Powers Agreement. Becker County's funds will be paid to Becker County, and Norman and Mahnomen County's funds will be transferred to the Norman-Mahnomen Community Health Board.

The agreement also states the final closeout will take place on about April 1, 2005.

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**MULTI-COUNTY NURSING SERVICE
DETROIT LAKES, MINNESOTA**

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

I. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-1 Segregation of Duties

The limited number of office personnel prevents the segregation of accounting functions necessary to ensure adequate internal accounting control. This situation is not unusual in operations the size of the Multi-County Nursing Service, but the Board and Directors should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

Under the above conditions, the most effective system of control lies in the Board's and Director's knowledge of Nursing Service operations and periodic review of those operations.

Client's Response:

Multi-County Nursing Service accounting functions are segregated to the best of our ability given the limited number of administrative staff. Periodic review of the agency's accounting operations will be completed by the director and Board.

II. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

04-1 Uninsured Deposits

Minn. Stat. § 118A.03 requires that a bond or collateral be obtained to cover deposits in excess of depository insurance. On December 31, 2004, as part of Becker County's withdrawal from the Multi-County Nursing Service, it transferred custody of cash to a new bank account. When this occurred, and continuing into 2005, the Multi-County Nursing Service's deposits exceeded the insured amount.

We recommend the Multi-County Nursing Service maintain deposits with insured amounts or obtain sufficient bond or collateral coverage for excess deposits.

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Multi-County Board of Health
Detroit Lakes, Minnesota

We have audited the financial statements of the Multi-County Nursing Service as of and for the year ended December 31, 2004, and have issued our report thereon dated March 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

The management of the Multi-County Nursing Service is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that:

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

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

In planning and performing our audit, we considered the Multi-County Nursing Service's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Multi-County Nursing Service's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 97-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains 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.

The results of our tests indicate that, for the items tested, the Multi-County Nursing Service complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 04-1.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: March 14, 2005