

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

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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**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

Year Ended December 31, 2005



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

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**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

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**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

ORGANIZATION
2005

Board	County	Term Expires
Karen Pfeifer*	Nobles	December 31, 2006
Norm Gallagher	Nobles	December 31, 2006
Lyla Hieronimus	Nobles	December 31, 2008
David Benson	Nobles	December 31, 2006
Robert Jarchow	Rock	December 31, 2006
Dorothy Dorn	Rock	December 31, 2007
Richard Bakken	Rock	December 31, 2006
Attorney Gordon Moore		Indefinite
Co-Interim Directors Melvin Ruppert Kyle Oldre		Indefinite Indefinite
Fiscal Officer Melvin Ruppert		Indefinite

*Chair 2005 and 2006

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PATRICIA ANDERSON
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Health
Nobles-Rock Public Health Services

We have audited the financial statements of the governmental activities and the General Fund of the Nobles-Rock Public Health Services as of and for the year ended December 31, 2005, which collectively comprise its basic financial statements. These financial statements are the responsibility of the Health Services' management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 financial position of the governmental activities and the General Fund of the Nobles-Rock Public Health Services as of December 31, 2005, and the changes in financial position thereof and the General Fund budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the Nobles-Rock Public Health Services. The schedule listed as a supporting schedule in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Nobles-Rock Public Health Services. The supporting information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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 our report dated August 16, 2006, on our consideration of the Nobles-Rock Public 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 16, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005
(Unaudited)**

As management of the Nobles-Rock Public Health Services, we offer the readers of the Health Services' financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2005. 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 financial statements. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL REPORTING ENTITY

The Nobles-Rock Public Health Services was established pursuant to Minn. Stat. ch. 145A. Nobles and Rock Counties entered into a joint powers agreement (Minn. Stat. § 471.59) effective January 1, 1977.

The Health Services is governed by a seven-member Board of Health. The Board consists of two Commissioners from each county, one appointed member from each county and one member selected by the Health Services' Advisory Committee.

The financial activities of the Nobles-Rock Public Health Services are accounted for by Nobles County as fiscal agent.

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

FINANCIAL HIGHLIGHTS

- The assets of the Nobles-Rock Public Health Services exceeded its liabilities by \$313,356 (net assets), of which \$34,112 is invested in capital assets (Exhibit 1), leaving unrestricted net assets of \$279,244.
- The Nobles-Rock Public Health Services' total net assets decreased by \$77,084 in 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements. The Nobles-Rock Public Health Services' basic financial statements consist of two statements that combine government-wide financial statements and fund financial statements, a budgetary comparison statement, and notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The first column of each of the first two statements presents governmental fund data. These columns focus on how money flows in and out and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. These columns provide a detailed short-term view of the operations and the basic services provided. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs. We reconcile the relationship (or differences) between governmental funds and governmental activities (reported in the third column) in the center column of each statement.

The third column in each statement presents the governmental activities' Statement of Net Assets and the Statement of Activities, which provide information about the activities of the Nobles-Rock Public Health Services as a whole and present a longer-term view of the finances. These columns include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Over time, increases or decreases in net assets are one indicator of whether its financial health is improving or deteriorating.

Governmental Fund

Revenues for the Nobles-Rock Public Health Services Fund increased by \$85,188, while total expenditures increased by \$117,297.

As shown in the Statement of Activities on Exhibit 2, the amount that was received through intergovernmental revenue was 48.3 percent of the total revenue received, or \$791,997.

The Nobles-Rock Public Health Services adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with the budget.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information is provided as supplementary information regarding the Nobles-Rock Public Health Services' intergovernmental revenues.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of financial position. The Nobles-Rock Public Health Services' assets exceeded liabilities by \$313,356 at the close of 2005. The largest portion of the Health Services' net assets reflects current assets.

Net Assets	2005	2004
	2005	2004
Assets		
Current and other assets	\$ 528,403	\$ 641,315
Capital assets	34,112	43,227
Total Assets	\$ 562,515	\$ 684,542
Liabilities		
Long-term liabilities	\$ 91,230	\$ 108,446
Other liabilities	157,929	185,656
Total Liabilities	\$ 249,159	\$ 294,102
Net Assets		
Invested in capital assets, net of related debt	\$ 34,112	\$ 43,227
Unrestricted	279,244	347,213
Total Net Assets	\$ 313,356	\$ 390,440

Governmental Activities

The Nobles-Rock Public Health Services' activities decreased the net assets during 2005 by \$77,084, representing an 19.7 percent decrease. Key elements in this decrease in net assets are as follows:

	2005	2004
Revenues		
Charges for services	\$ 782,052	\$ 860,898
Intergovernmental	791,997	612,191
Licenses and permits	46,299	47,983
Miscellaneous	18,740	32,828
Total Revenues	<u>\$ 1,639,088</u>	<u>\$ 1,553,900</u>
Expenses		
Health		
Personal services	\$ 1,156,164	\$ 1,204,534
Other services and charges	189,051	141,901
Supplies	42,465	41,373
Professional and technical services	317,268	105,031
Depreciation	11,224	13,297
Total health	<u>\$ 1,716,172</u>	<u>\$ 1,506,136</u>
Intergovernmental		
Health transfer out	<u>-</u>	<u>100,000</u>
Total Expenses	<u>\$ 1,716,172</u>	<u>\$ 1,606,136</u>
Increase (Decrease) in Net Assets	\$ (77,084)	\$ (52,236)
Net Assets - January 1	<u>390,440</u>	<u>442,676</u>
Net Assets - December 31	<u>\$ 313,356</u>	<u>\$ 390,440</u>

General Fund Budgetary Highlights

There were no changes from the original General Fund expenditure budget to the final budget during 2005.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Nobles-Rock Public Health Services' depreciable capital assets at December 31, 2005, totaled \$34,112 (net of accumulated depreciation). This investment in capital assets includes office furniture and equipment.

	<u>2004</u>	<u>2005</u>
Capital assets depreciated		
Office furniture and equipment	\$ 71,070	\$ 76,318
Less: accumulated depreciation for		
Office furniture and equipment	<u>27,843</u>	<u>42,206</u>
Total Capital Assets Depreciated, Net	<u>\$ 43,227</u>	<u>\$ 34,112</u>

Additional information on the Health Services' capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the Nobles-Rock Public Health Services had no outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The unemployment rate in the Public Health service area has been relatively low for the past few years. We continue to see an increase in the minority population that the Health Services serves. In January 2006, the Board of Health approved its balanced 2006 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Nobles-Rock Public Health Services' finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Melvin J. Ruppert, Nobles County Administrator, P. O. Box 757, Worthington, Minnesota 56187.

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BASIC FINANCIAL STATEMENTS

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**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

EXHIBIT 1

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2005**

	General Fund	Adjustments (Note 2.A.)	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 425,724	\$ -	\$ 425,724
Petty cash and change funds	100	-	100
Accounts receivable	56,720	-	56,720
Due from other governments	45,859	-	45,859
Noncurrent assets			
Capital assets			
Depreciable - net	-	34,112	34,112
Total Assets	\$ 528,403	\$ 34,112	\$ 562,515
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 10,607	\$ -	\$ 10,607
Salaries payable	50,400	-	50,400
Due to other governments	66,717	-	66,717
Deferred revenue - unearned	30,205	-	30,205
Long-term liabilities			
Due within one year	-	7,280	7,280
Due in more than one year	-	83,950	83,950
Total Liabilities	\$ 157,929	\$ 91,230	\$ 249,159
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	370,474	(370,474)	
Total Liabilities and Fund Balance	\$ 528,403		
Net Assets			
Invested in capital assets		\$ 34,112	\$ 34,112
Unrestricted		279,244	279,244
Total Net Assets		\$ 313,356	\$ 313,356
<u>Reconciliation of the General Fund Balance to Net Assets</u>			
Fund Balance - General Fund			\$ 370,474
Capital assets are reported on the Statement of Net Assets but not in the Fund Balance Sheet			34,112
Long-term liabilities are reported on the Statement of Net Assets but not in the Fund Balance Sheet			(91,230)
Net Assets - Governmental Activities			\$ 313,356

**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, 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, 2005**

	General Fund	Adjustments (Note 2.B.)	Governmental Activities
Revenues			
Licenses and permits	\$ 46,299	\$ -	\$ 46,299
Intergovernmental	791,997	-	791,997
Charges for services	782,052	-	782,052
Miscellaneous	18,740	-	18,740
	\$ 1,639,088	\$ -	\$ 1,639,088
Expenditures/Expenses			
Current			
Health			
Personal services	\$ 1,173,380	\$ (17,216)	\$ 1,156,164
Other services and charges	191,160	(2,109)	189,051
Supplies	42,465	-	42,465
Professional and technical services	317,268	-	317,268
Depreciation	-	11,224	11,224
	\$ 1,724,273	\$ (8,101)	\$ 1,716,172
Net Change in Fund Balance/Net Assets	\$ (85,185)	\$ 8,101	\$ (77,084)
Fund Balance/Net Assets - January 1	455,659	(65,219)	390,440
Fund Balance/Net Assets - December 31	\$ 370,474	\$ (57,118)	\$ 313,356
Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities of Governmental Activities			
Net Change in Fund Balance			\$ (85,185)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The adjustment is the net change in capital assets. (See Note 2.B.)			(9,115)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. The adjustment is the change in compensated absences payable. (See Note 2.B.)			17,216
Change in Net Assets of Governmental Activities			\$ (77,084)

**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

EXHIBIT 3

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Licenses and permits	\$ 46,000	\$ 46,000	\$ 46,299	\$ 299
Intergovernmental	845,981	845,981	791,997	(53,984)
Charges for services	879,032	879,032	782,052	(96,980)
Miscellaneous	18,009	18,009	18,740	731
Total Revenues	\$ 1,789,022	\$ 1,789,022	\$ 1,639,088	\$ (149,934)
Expenditures				
Current				
Health				
Personal services	\$ 1,287,391	\$ 1,287,391	\$ 1,173,380	\$ 114,011
Other services and charges	185,734	185,734	191,160	(5,426)
Supplies	37,707	37,707	42,465	(4,758)
Professional and technical services	243,235	243,235	317,268	(74,033)
Total Expenditures	\$ 1,754,067	\$ 1,754,067	\$ 1,724,273	\$ 29,794
Net Change in Fund Balance	\$ 34,955	\$ 34,955	\$ (85,185)	\$ (120,140)
Fund Balance - January 1	455,659	455,659	455,659	-
Fund Balance - December 31	\$ 490,614	\$ 490,614	\$ 370,474	\$ (120,140)

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**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Summary of Significant Accounting Policies

The Nobles-Rock Public Health Services' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. 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 Nobles-Rock Public Health Services are discussed below.

A. Financial Reporting Entity

Nobles-Rock Public Health Services was established pursuant to Minn. Stat. ch. 145A. Nobles and Rock Counties entered into a joint powers agreement (Minn. Stat. § 471.59) effective January 1, 1977.

The Health Services is governed by a seven-member Board of Health. The Board consists of two commissioners from each county, one appointed member from each county and one member selected by the Health Services' Advisory Committee.

The financial activities of Nobles-Rock Public Health Services are accounted for by Nobles County as fiscal agent.

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

B. Basic Financial Statements

Basic financial statements include information on the Health Services' activities as a whole and information on the individual fund of the Health Services. These separate presentations are reported in different columns on Exhibits 1 and 2. Each of the

**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

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 the Health Services as a whole.

The governmental activities columns are reported on the full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Health Services’ net assets are reported in two parts: invested in capital assets, net of related debt, and unrestricted net assets. The statement of activities demonstrates the degree to which the expenses of the 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 and report current financial resources.

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Nobles-Rock Public Health Services considers all revenues as available if they are collected within 60 days after the end of the current period. Charges for services and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the Nobles-Rock Public Health Services’ policy to use restricted resources first and then unrestricted resources as needed.

**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Deposits and investments are reported at their fair value at December 31, 2005, based on market prices.

2. Receivables

The financial statements for the Health Services contain no allowance for uncollectible accounts. Uncollectible amounts due for receivables are recognized as bad debts at the time information becomes available that indicates the uncollectibility of the particular receivable. These amounts are not considered to be material in relation to the financial position or operations of the fund.

3. Capital Assets

Capital assets, which include office furniture and equipment and automotive equipment, are reported in the governmental activities column in the statement of net assets. Capital assets are defined as assets with an initial, individual cost of more than \$750 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Office furniture and equipment and automotive equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Office furniture and equipment	3 - 20

**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Compensated Absences

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

5. Deferred Revenue

The Health Services reports deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

6. Long-Term Liabilities

Long-term liabilities are not reported in the fund. The General Fund reports only liabilities that are expected to be financed with available, spendable financial resources. The statement of net assets reports long-term liabilities of the governmental activities.

7. Fund Equity

The fund financial statements report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change. The Health Services reported no reservations or designations for the year ended December 31, 2005.

**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Use of Estimates

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

2. Reconciliation for Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Governmental Activities Statement of Net Assets

The balance sheet includes a reconciliation between fund balance and net assets as reported in the government-wide statement of net assets and balance sheet for the year ended December 31, 2005. The adjustments are as follows:

	<u>Adjustments</u>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	\$ 34,112
Long-term liabilities in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental fund.	<u>(91,230)</u>
Net Adjustment to Fund Balance to Arrive at Net Assets	<u>\$ (57,118)</u>

**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

2. Reconciliation for Government-Wide and Fund Financial Statements (Continued)

B. Explanation of Certain Differences Between the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance and the Governmental Activities Statement of Activities

The statement of governmental fund revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balance and changes in net assets of governmental activities as reported in Exhibit 2. The following table shows the necessary adjustments:

	Adjustments
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	\$ (11,224)
Capital outlay expenditure	2,109
Net Change in Capital Assets	\$ (9,115)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. The adjustment is the change in compensated absences payable.	
Payable December 31	\$ 91,230
Payable January 1	(108,446)
Net Change in Compensated Absences Payable	\$ (17,216)

3. Detailed Notes

A. Assets

1. Deposits and Investments

Cash transactions are administered by the Nobles County Auditor/Treasurer who is, according to Minn. Stat. §§ 118A.02 and 118A.04, authorized to deposit cash in financial institutions designated by the County Board for the Health Services.

**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

Reconciliation of the Health Services' total cash as reported in the basic financial statements to deposits, cash on hand, and investments follows:

Deposits	\$ 425,724
Petty cash and change funds	<u>100</u>
Total Deposits and Cash on Hand	<u>\$ 425,824</u>

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Health Services to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires all Health Services' deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Health Services' deposits may not be returned to it. The Health Services does not have a deposit policy for custodial credit risk. As of December 31, 2005, the Health Services' deposits were not exposed to custodial credit risk.

**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the Health Services:

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

During the year ended December 31, 2005, the Health Services had no investments.

**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

3. Detailed Notes

A. Assets (Continued)

2. Receivables

The Health Services did not have any receivables scheduled to be collected beyond one year as of December 31, 2005.

3. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Office furniture and equipment	\$ 71,070	\$ 5,248	\$ -	\$ 76,318
Less: accumulated depreciation for				
Office furniture and equipment	<u>27,843</u>	<u>14,363</u>	<u>-</u>	<u>42,206</u>
Total Capital Assets Depreciated, Net	<u>\$ 43,227</u>	<u>\$ (9,115)</u>	<u>\$ -</u>	<u>\$ 34,112</u>

Depreciation expense was charged to the Health Services' programs for the year ended December 31, 2005. Included in the increase column is \$3,139 in fully depreciated assets, now included in capital assets and accumulated depreciation due to a change in the capitalization threshold.

B. Liabilities

1. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, 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	<u>\$ 108,446</u>	<u>\$ -</u>	<u>\$ 17,216</u>	<u>\$ 91,230</u>	<u>\$ 7,280</u>

**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

3. Detailed Notes

B. Liabilities (Continued)

2. Employee Retirement Systems and Pension Plans

A. Plan Description

All full-time and certain part-time employees of Nobles-Rock Public Health Services 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.

**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

3. Detailed Notes

B. Liabilities

2. 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 internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Nobles-Rock Public Health Services 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 were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. The Health Services is required to contribute the following percentages of annual covered payroll:

**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

3. Detailed Notes

B. Liabilities

2. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

In 2005	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
In 2006	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.00

The Nobles-Rock Public Health Services' contributions for the years ending December 31, 2005, 2004, and 2003, were \$50,424, \$52,458, and \$51,753, respectively, equal to the contractually required contributions for each year as set by state statute.

3. Risk Management

Nobles-Rock Public Health Services is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The Health Services has entered into a joint powers agreement with certain Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT) to cover its workers' compensation and property and casualty liabilities.

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 \$760,000 per claim in 2005 and \$390,000 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Health Services in a method and amount to be determined by MCIT.

**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

3. Detailed Notes

B. Liabilities

3. Risk Management (Continued)

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

The Nobles-Rock Public Health Services Board has not reduced insurance coverage in the past year and has not had settlements in excess of insurance coverage in any of the past three years.

4. Summary of Significant Contingencies and Other Items

Contingent Liabilities

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

The Nobles-Rock Public Health Services is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Health Services' Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

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SUPPORTING SCHEDULE

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**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

Schedule 1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2005**

Shared Revenue	
Contributions from counties	<u>\$ 175,869</u>
Grants	
State	
Minnesota Department of Health	<u>\$ 422,879</u>
Federal	
Department of	
Agriculture	\$ 115,748
Health and Human Services	<u>77,501</u>
Total Federal	<u>\$ 193,249</u>
Total State and Federal Grants	<u>\$ 616,128</u>
Total Intergovernmental Revenue	<u><u>\$ 791,997</u></u>

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**NOBLES-ROCK PUBLIC HEALTH SERVICES
WORTHINGTON, MINNESOTA**

Schedule 2

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

PREVIOUSLY REPORTED ITEM NOT RESOLVED

01-1 Internal Accounting Control

Due to the limited number of office personnel within the Nobles-Rock Public Health Services' office, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible. Although this is not unusual in small office situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

We recommend that Health Services' management be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

Client's Response:

The Health Services is aware that due to concentration of duties and responsibilities, there is a lack of office personnel in various office arrangements to ensure adequate internal accounting controls. Management will periodically monitor these office arrangements to assure established policies and procedures are being followed.

II. OTHER FINDINGS AND RECOMMENDATION

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM RESOLVED

Capital Assets Capitalization Threshold (02-1)

In 2000, Nobles-Rock Public Health Services adopted Nobles County's capital assets policy in which only assets over \$5,000 each are used for reporting purposes. By adopting a capitalization threshold at a high amount, the Health Services eliminated all or most of the capital assets for reporting purposes.

Resolution

The Board approved a capitalization threshold of \$750 at the September 20, 2005, meeting.

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the Health Services' will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and

Schedule 2
(Continued)

- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

If applicable for the Nobles-Rock Public Health Services, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2008 and 2009, respectively.

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PATRICIA ANDERSON
STATE AUDITOR

**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***

Board of Health
Nobles-Rock Public Health Services

We have audited the financial statements of the governmental activities and the General Fund of Nobles-Rock Public Health Services as of and for the year ended December 31, 2005, and have issued our report thereon dated August 16, 2006. 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

In planning and performing our audit, we considered Nobles-Rock Public Health Services' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving 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 Health Services' 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 01-1.

A material weakness is a reportable 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 caused by error or fraud 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 do not believe the reportable condition indicated above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nobles-Rock Public 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 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, Nobles-Rock Public 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 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: August 16, 2006