

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MID-STATE COMMUNITY HEALTH SERVICES
GLENWOOD, MINNESOTA

YEAR ENDED DECEMBER 31, 2009

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

**MID-STATE COMMUNITY HEALTH SERVICES
GLENWOOD, MINNESOTA**

Year Ended December 31, 2009



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

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**MID-STATE COMMUNITY HEALTH SERVICES
GLENWOOD, MINNESOTA**

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**MID-STATE COMMUNITY HEALTH SERVICES
GLENWOOD, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2009

<u>Community Health Board</u>	<u>Position</u>	<u>County</u>
Todd Schneeberger	Chair	Grant
Tom Amundson	Member	Grant
Larry Lindor	Member	Pope
Larry Kittelson	Member	Pope
Don Munsterman	Member	Stevens
Paul Watzke	Vice Chair	Stevens
Jerry M. Deal	Member	Traverse
Gerald Kaus	Member	Traverse

<u>Advisory Committee</u>	<u>Position</u>	<u>County</u>
Deb Hengel	Member	Grant
Todd Schneeberger	Member	Grant
Larry Kittelson	Member	Pope
Cody Rogahn	Member	Pope
Karla Van Moorlehem	Chair	Stevens
Paul Watzke	Member	Stevens
Cheri Rikimoto	Vice Chair	Traverse
Gerald Kaus	Member	Traverse

Administrator
Sharon Braaten, Pope County Public Health

Fiscal Officer
Mindy Hoffmann

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Community Health Board
Mid-State Community Health Services

We have audited the accompanying financial statements of the governmental activities and the General Fund of Mid-State Community Health Services as of and for the year ended December 31, 2009, which collectively comprise Mid-State Community Health Services' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mid-State Community Health Services' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Mid-State Community Health Services as of December 31, 2009, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, listed in the table of contents, 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.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

November 18, 2010

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MID-STATE COMMUNITY HEALTH SERVICES
GLENWOOD, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009
(Unaudited)**

INTRODUCTION

Mid-State Community Health Services' (Mid-State) Management's Discussion and Analysis (MD&A) provides an overview of Mid-State's financial activities for the fiscal year ended December 31, 2009. 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.

Mid-State is a joint powers governmental operation of Grant, Pope, Stevens, and Traverse Counties, created with the intention to establish and maintain an integrated and cooperative system of community health services under local administration and within a system of state guidelines and standards, for the mutual benefit of the joint participants. Mid-State serves as the conduit to distribute grants received by other governments to the public health programs of the counties in the joint powers.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Mid-State's 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 two statements are each presented in a single column. Because Mid-State had no capital assets, long-term liabilities, or revenue deferred as unavailable at December 31, 2008 or 2009, the balance sheet and the operating statement presented on the modified accrual basis of accounting are the same as the statement of net assets and the statement of activities, respectively, presented on a full accrual basis of accounting.

FINANCIAL ANALYSIS

	Net Assets			
	2009	2008	Increase (Decrease)	Percent Change (%)
Assets				
Current and other assets	\$ 223,495	\$ 243,987	\$ (20,492)	(8.40)
Liabilities				
Current liabilities	130,731	142,321	(11,590)	(8.14)
Net Assets				
Unrestricted	\$ 92,764	\$ 101,666	\$ (8,902)	(8.76)

	Changes in Net Assets			
	2009	2008	Increase (Decrease)	Percent Change (%)
Revenues				
Intergovernmental	\$ 753,208	\$ 729,230	\$ 23,978	3.29
Miscellaneous	27,927	43,336	(15,409)	(35.56)
Total Revenues	\$ 781,135	\$ 772,566	\$ 8,569	1.11
Expenses				
Health				
Current	\$ 54,659	\$ 40,362	\$ 14,297	35.42
Intergovernmental	735,378	753,527	(18,149)	(2.41)
Total Expenses	\$ 790,037	\$ 793,889	\$ (3,852)	(0.49)
Change in Net Assets	\$ (8,902)	\$ (21,323)	\$ 12,421	(58.25)

Budgetary Highlights

Mid-State's Board did not make any budgetary amendments/revisions in 2009.

Actual revenues were less than budgeted revenues by \$23,802. Factors contributing included grant changes and variations of grant revenues for grants that span more than one calendar year.

Total current health expenditures were higher than budgeted due to increases in audit, administrative staff transition, and insurance costs. Intergovernmental health expenditures were less than budgeted due to under utilization of grant dollars, particularly PHER III. The net result was actual expenditures came in under budgeted expenditures by \$14,900 for 2009.

The decrease in total net assets is due to excess expenditures over revenues. Mid-State's approved 2009 administrative budget included a fund balance reduction (net assets unrestricted) of \$8,780 to meet the administrative needs. The actual decrease in net assets unrestricted was \$8,902.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- The State of Minnesota's finances have been declining, which could result in the cutback of various grants.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Mid-State's finances and to show Mid-State's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrator, Sharon Braaten, 211 E. Minnesota Avenue, Glenwood, Minnesota 56344.

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BASIC FINANCIAL STATEMENTS

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**MID-STATE COMMUNITY HEALTH SERVICES
GLENWOOD, MINNESOTA**

EXHIBIT 1

**GENERAL FUND BALANCE SHEET
AND GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS
DECEMBER 31, 2009**

Assets

Cash held by Pope County	\$ 77,750
Cash held by Stevens County	88,335
Due from other governments	<u>57,410</u>
Total Assets	<u>\$ 223,495</u>

Liabilities and Fund Balance/Net Assets

Liabilities

Accounts payable	\$ 4,853
Due to other governments	94,463
Deferred revenue - unearned	<u>31,415</u>
Total Liabilities	\$ 130,731

Fund Balance/Net Assets

Unreserved/unrestricted	<u>92,764</u>
Total Liabilities and Fund Balance/Net Assets	<u>\$ 223,495</u>

Mid-State Community Health Services has no capital assets, long-term liabilities, or revenue deferred as unavailable. Therefore, the Balance Sheet of the General Fund is the same as the Statement of Net Assets of the Governmental Activities.

**MID-STATE COMMUNITY HEALTH SERVICES
GLENWOOD, MINNESOTA**

EXHIBIT 2

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

Revenues	
Intergovernmental	\$ 753,208
Miscellaneous	<u>27,927</u>
Total Revenues	<u>\$ 781,135</u>
Expenditures/Expenses	
Health	
Current	
General government	<u>\$ 54,659</u>
Intergovernmental	
Community Health Services Grant	\$ 144,395
Maternal and Child Health	43,715
Women, Infants, and Children Food Program	154,140
Family Planning Grant	130,530
TANF Home Visiting Grant	67,503
Public Health Preparedness Grant	74,661
Public Health Emergency Response I and II	34,200
CTC Outreach Program	60,783
Public Health Emergency Response III	<u>25,451</u>
Total intergovernmental	<u>\$ 735,378</u>
Total Expenditures/Expenses	<u>\$ 790,037</u>
Change in Fund Balance/Net Assets	\$ (8,902)
Fund Balance/Net Assets - January 1	<u>101,666</u>
Fund Balance/Net Assets - December 31	<u><u>\$ 92,764</u></u>

Mid-State Community Health Services has no capital assets, long-term liabilities, or revenue deferred as unavailable. Therefore, the Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund is the same as the Statement of Activities for the Governmental Activities.

**MID-STATE COMMUNITY HEALTH SERVICES
GLENWOOD, MINNESOTA**

EXHIBIT 3

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 804,937	\$ 804,937	\$ 753,208	\$ (51,729)
Miscellaneous	-	-	27,927	27,927
Total Revenues	\$ 804,937	\$ 804,937	\$ 781,135	\$ (23,802)
Expenditures				
Health				
Current				
Accounting and auditing	\$ 7,500	\$ 7,500	\$ 21,072	\$ (13,572)
Administrative services and charges	31,751	31,751	33,587	(1,836)
Medical consultant services	600	600	-	600
Total general government	\$ 39,851	\$ 39,851	\$ 54,659	\$ (14,808)
Intergovernmental				
Community Health Services Grant	\$ 144,395	\$ 144,395	\$ 144,395	\$ -
Maternal and Child Health Women, Infants, and Children Food Program	43,715	43,715	43,715	-
Family Planning Grant	152,984	152,984	154,140	(1,156)
TANF Home Visiting Grant	142,992	142,992	130,530	12,462
Public Health Preparedness Grant	56,086	56,086	67,503	(11,417)
Public Health Emergency Response I and II	68,400	68,400	74,661	(6,261)
CTC Outreach Program	36,000	36,000	34,200	1,800
Public Health Emergency Response III	57,048	57,048	60,783	(3,735)
Adolescent Health Initiative	56,866	56,866	25,451	31,415
	6,600	6,600	-	6,600
Total intergovernmental	\$ 765,086	\$ 765,086	\$ 735,378	\$ 29,708
Total Expenditures	\$ 804,937	\$ 804,937	\$ 790,037	\$ 14,900
Net Change in Fund Balance	\$ -	\$ -	\$ (8,902)	\$ (8,902)
Fund Balance - January 1	101,666	101,666	101,666	-
Fund Balance - December 31	\$ 101,666	\$ 101,666	\$ 92,764	\$ (8,902)

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**MID-STATE COMMUNITY HEALTH SERVICES
GLENWOOD, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009**

1. Summary of Significant Accounting Policies

Mid-State Community Health Services' (Mid-State) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2009. 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 Mid-State are discussed below.

A. Financial Reporting Entity

Mid-State was established January 1, 1983, by a joint powers agreement among Grant, Pope, Stevens, and Traverse Counties. The agreement was established to secure more efficient health care services for the mutual benefit of each of the joint participants. The joint powers agreement remains in force until any single county notifies the State Board of Health and the other parties of its intentions to withdraw, at least one year before the beginning of the calendar year in which it takes effect.

Control is vested in Mid-State's Board, which consists of eight members, two from each county. Each member of the Board is appointed by the County Commissioners of the county they represent. Members of the Board serve an annual term, with no more than three consecutive terms.

The financial activities of Mid-State are accounted for in an agency fund by Pope County. The employees who administer the activities of Mid-State are considered to be employees of Pope County Public Health.

Mid-State is a joint venture independent of the counties that formed it. Each county has an ongoing responsibility to provide funding for the operating costs of the Board and Advisory Committee. The funding is allocated in accordance with the actual expenses incurred by representatives of the respective counties on the Board and its Advisory Committee. In addition, administrative operating costs are allocated proportionately, with total subsidy funds available to each member county.

**MID-STATE COMMUNITY HEALTH SERVICES
GLENWOOD, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The financial statements combine fund level financial statements (General Fund column) and government-wide financial statements (governmental activities column). These statements include the overall financial activities of Mid-State.

The government-wide columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Mid-State's net assets are reported as unrestricted net assets.

Mid-State reports one governmental fund. The General Fund is Mid-State's primary operating fund. It accounts for all the financial resources of the organization.

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 funds (General Fund) 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. Mid-State considers all revenues to be available if collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments, which are recognized as expenditures to the extent that they have matured. When both restricted and unrestricted resources are available for use, it is Mid-State's policy to use restricted resources first and then unrestricted resources as needed.

Intra-fund transactions have not been eliminated in the financial statements. Eliminations have not been presented so that expenditures for each of the grants are reported in their entirety.

**MID-STATE COMMUNITY HEALTH SERVICES
GLENWOOD, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets

1. Assets

Due From/To Other Governments

Amounts represent receivables and payables related to grants from other federal, state, and local governments for program administration.

Capital Assets and Depreciation

Capital assets are reported in the governmental activities column in the government-wide financial statements. Mid-State has adopted Pope County's capitalization policy, which defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Currently, Mid-State has no capital assets that meet the threshold for capitalization.

2. Liabilities

Deferred Revenue

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

2. Detailed Notes on Accounts

A. Assets

Cash Deposits

As of December 31, 2009, Mid-State had \$77,750 on deposit with Pope County and \$88,335 with Stevens County. Cash transactions are administered by the Pope and Stevens County Auditor/Treasurers, who are authorized by Minn. Stat. §§ 118A.02 and 118A.04 to deposit cash in financial institutions designated by the respective County Boards. All funds of Pope and Stevens County are pooled.

**MID-STATE COMMUNITY HEALTH SERVICES
GLENWOOD, MINNESOTA**

2. Detailed Notes on Accounts

A. Assets

Cash Deposits (Continued)

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. Minnesota statutes require that all county deposits be covered by insurance, surety bond, or collateral, a requirement with which both Pope and Stevens Counties were in compliance at December 31, 2009.

Receivables

Receivables as of December 31, 2009, are as follows:

Due from other governments	<u>\$ 57,410</u>
----------------------------	------------------

Mid-State did not have any receivables scheduled to be collected beyond one year.

B. Liabilities

Deferred Revenue

Revenue in the amount of \$31,415 in connection with the Public Health Emergency Response III grant was available but not earned in the current period and is therefore reported as deferred revenue - unearned in the General Fund.

3. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

The attorney for Mid-State estimates that potential claims against Mid-State resulting from litigation would not materially affect the financial statements.

**MID-STATE COMMUNITY HEALTH SERVICES
GLENWOOD, MINNESOTA**

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

B. Risk Management

Mid-State is exposed to various risks of loss related to torts and errors and omissions or natural disasters. To cover these risks, Mid-State is a member of the Minnesota Counties Intergovernmental Trust (MCIT), formerly the Minnesota Counties Insurance Trust, a public entity risk pool. Mid-State retains the risk for the deductible portions of its insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year or settlements that exceeded insurance coverage for the past three years.

C. Subsequent Event

Effective December 31, 2010, Mid-State will cease operations. A new joint powers agreement will be established under the name Horizon Community Health Board on January 1, 2011. The new agreement will include the counties of Douglas, Grant, Pope, Stevens, and Traverse.

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**MID-STATE COMMUNITY HEALTH SERVICES
GLENWOOD, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2009**

I. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-1 **Internal Control/Segregation of Duties**

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of Mid-State Community Health Services (Mid-State) and its staffing limits the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements. Mid-State has established controls and procedures for the recording, processing, and summarizing of its accounting data used in the preparation of its financial statements.

As is the case with many small and medium-sized entities, Mid-State has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, Mid-State's ability to prepare financial statements in accordance with generally accepted accounting principles (GAAP) is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition is a result of Mid-State's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare financial statements internally. As a result of this condition, the government lacks internal controls over the preparation and reporting of financial statements in accordance with GAAP.

We recommend the Mid-State's Board be mindful that limited staffing causes inherent risks in safeguarding the agency's assets and the proper reporting of its financial activity.

Client's Response:

The Mid-State Community Health Services Board and Mid-State Management will continue to be aware of the inherent risks limited staffing creates relative to safeguarding the agency's assets and the reporting of financial activity. Mid-State Management will continue to monitor and use the best fiscal practices to decrease this risk. During 2009, Mid-State utilized the following system utilizing checks and balances from Mid-State Administrative staff and County Auditor staff:

- *The fiscal officer of the Mid-State Administrative Agency prepares the vouchers/invoices for payment. The Mid-State CHS Administrator approves all disbursements. Personnel in the Auditor's office of the Mid-State Administrative County process the disbursements assuring payment has not previously been made. Additionally, they contact the Mid-State Management regarding any questionable requests for disbursement. Documentation supporting the request for disbursement is maintained as part of the Mid-State fiscal file. Disbursements correlate either with the Mid-State CHS Administrative budget approved by the Mid-State Community Health Services Board or with the grant payment schedule developed by the Mid-State CHS Administrator. A revenues and expenditures report is maintained and reviewed with the Mid-State Community Health Services Board.*

08-1 Documenting and Monitoring Internal Controls

Management is responsible for Mid-State's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided. Although Mid-State may informally assess risks and adjust internal control procedures to address those risks, there are no formal procedures or documentation of those procedures in place.

At a minimum, the following significant internal control areas should be documented:

- cash and investment activities,
- major funding sources (intergovernmental revenues and miscellaneous items), and
- expenditure/expense processing.

We recommend that Mid-State's management document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

Mid-State Management and personnel from the Auditor/Treasurer's Office of the Mid-State Administrative County will meet no less than annually to discuss Mid-State's fiscal processes, assess risks, and identify processes to minimize the risks. Internal control areas assessed will include:

- cash and investment activities,*
- major funding sources, and*
- expenditure/expense processing.*

Documentation will be maintained which will include date of review, attendees, issues discussed, results of the review, including corrective actions needed and who will be responsible for implementation.

II. OTHER FINDINGS AND RECOMMENDATIONS

OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved, designated, and undesignated are being replaced by nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for Mid-State or any successor organization for the year ending December 31, 2011.



REBECCA OTTO
STATE AUDITOR

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Community Health Board
Mid-State Community Health Services

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the governmental activities and the General Fund of Mid-State Community Health Services (Mid-State) as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered Mid-State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mid-State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mid-State's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of Mid-State's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies described

in the accompanying Schedule of Findings and Recommendations as items 06-1 and 08-1. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Minnesota Legal Compliance

We have audited the financial statements of the governmental activities and the General Fund of Mid-State as of and for the year ended December 31, 2009, which collectively comprise Mid-State's basic financial statements. 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, except that we did not test for compliance in contracting and bidding and public indebtedness because Mid-State did not do any contracting in 2009 and has no debt.

The results of our tests indicate that, for the items tested, Mid-State complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to Mid-State, and it is reported for that purpose.

Mid-State's written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit Mid-State's responses and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Mid-State's Board, management, and others within Mid-State and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 18, 2010