

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2011

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

For the Year Ended December 31, 2011



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

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2011

	<u>Position</u>	<u>County</u>	<u>Term Expires</u>
Joint Public Health Board			
Jeanne Ennen	Member	Stevens	December 31, 2014
Larry Sayre	Chair	Stevens	December 31, 2012
Paul Watzke	Member	Stevens	December 31, 2012
Jerry Deal	Member	Traverse	December 31, 2014
Todd Johnson	Member	Traverse	December 31, 2014
Dave Salberg	Member	Traverse	December 31, 2012
Todd Schneeberger	Vice Chair	Grant	December 31, 2012
Philip Groneberg	Member	Grant	December 31, 2012
Ronald Woltjer	Member	Grant	December 31, 2014
Joint Public Health Director			
Sandy Tubbs			Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Stevens Traverse Grant Joint Public Health Board
Stevens Traverse Grant Public Health

We have audited the basic financial statements of Stevens Traverse Grant Public Health as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of Stevens Traverse Grant Public Health's 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. 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 Stevens Traverse Grant Public Health as of December 31, 2011, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required

supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

December 20, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(Unaudited)**

Stevens Traverse Grant Public Health's (Health Service) Management's Discussion and Analysis (MD&A) provides an overview of the Health Service's financial activities for the fiscal year ended December 31, 2011. 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 Health Service's financial statements.

The Health Service is a joint powers enterprise operation of Grant, Stevens, and Traverse Counties created to provide community health care for the residents of the tri-county area.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The Health Service's basic financial statements consist of two parts: the financial statements and the 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 financial statements present the Health Service's financial activities and consist of the following:

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

FINANCIAL ANALYSIS

Net Assets

	2011	2010	Increase (Decrease)	Percent Change (%)
Assets				
Current and other assets	\$ 479,782	\$ 425,171	\$ 54,611	12.84
Capital assets - net of depreciation	49,944	71,921	(21,977)	(30.56)
Total Assets	\$ 529,726	\$ 497,092	\$ 32,634	6.56
Liabilities				
Current liabilities	\$ 85,745	\$ 119,241	\$ (33,496)	(28.09)
Noncurrent liabilities	39,501	50,514	(11,013)	(21.80)
Total Liabilities	\$ 125,246	\$ 169,755	\$ 44,509	(26.22)
Net Assets				
Invested in capital assets	\$ 49,944	\$ 71,921	\$ (21,977)	(30.56)
Unrestricted	354,536	255,416	99,120	38.81
Total Net Assets	\$ 404,480	\$ 327,337	\$ 77,143	23.57

Changes in Net Assets

	2011	2010	Increase (Decrease)	Percent Change (%)
Operating revenues				
Charges for services	\$ 858,941	\$ 964,352	\$ (105,411)	(10.93)
Intergovernmental	676,972	678,205	(1,233)	0.18
Miscellaneous	39,046	60,445	(21,399)	(35.40)
Total operating revenues	\$ 1,574,959	\$ 1,703,002	\$ (128,043)	(7.51)
Nonoperating revenues				
Interest income	168	290	(122)	(42.07)
Total Revenues	\$ 1,575,127	\$ 1,703,292	\$ (128,165)	(7.52)
Operating expenses				
Personal services	\$ 1,154,868	\$ 1,197,442	\$ (42,574)	(3.56)
Nursing services	131,496	212,690	(81,194)	(38.17)
Contracted services	150,016	70,623	79,393	112.42
Supplies	39,627	33,017	6,610	20.02
Maternal and Child Health (MCH)	-	32,012	(32,012)	(100.00)
Women, Infants, and Children (WIC) Program	-	107,289	(107,289)	(100.00)
Depreciation	21,977	18,473	3,504	18.97
Total Expenses	\$ 1,497,984	\$ 1,671,546	\$ (173,562)	(10.38)
Change in Net Assets	\$ 77,143	\$ 31,746	\$ 45,397	

(Unaudited)

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The increase in cash from 2010 to 2011 is due to the fact that the agency had more revenues than expenses in 2011. In 2011, two staff positions were not filled after an employee's retirement or resignation. This reduced the salary expense for the agency. The reason for the decrease in nursing services from 2010 to 2011 was due to the fact that, in 2010, our agency purchased our client software, Nightingale Notes. This expense was included in nursing services under furniture and equipment purchases. It was also determined that it was no longer necessary to break out the MCH and WIC grant expenses in the operating expenses sections 9053 and 9063. The expenses for those grant programs are included in other operating expenses categories.

CAPITAL ASSETS ADMINISTRATION

	Capital Assets (Net of Depreciation)			
	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>Percent Change (%)</u>
Furniture, equipment, and vehicles	<u>\$ 49,944</u>	<u>\$ 71,921</u>	<u>\$ (21,977)</u>	(30.56)

ECONOMIC FACTORS

- The State of Minnesota's finances have been declining, which could result in the cutback of various grants.
- Unanticipated reductions in County Program Aid from the State of Minnesota resulted in budget cutbacks.

CONTACTING THE HEALTH SERVICE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Health Service's finances and to show the Health Service's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Director, Sandy Tubbs, 10 E. Highway 28, Morris, Minnesota 56267.

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BASIC FINANCIAL STATEMENTS

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

Assets

Current assets

Cash in custody of Stevens County Treasurer	\$ 394,985
Petty cash and change funds	25
Accounts receivable	7,833
Due from other governments	76,939
	<hr/>

Total current assets **\$ 479,782**

Capital assets

Furniture and equipment	\$ 123,021
Less: accumulated depreciation	(73,077)
	<hr/>

Net capital assets **\$ 49,944**

Total Assets **\$ 529,726**

Liabilities

Current liabilities

Accounts payable	\$ 4,138
Salaries payable	17,216
Compensated absences payable	42,325
Due to other governments	22,066
	<hr/>

Total current liabilities **\$ 85,745**

Noncurrent liabilities

Compensated absences	39,501
	<hr/>

Total Liabilities **\$ 125,246**

Net Assets

Invested in capital assets	\$ 49,944
Unrestricted	354,536
	<hr/>

Total Net Assets **\$ 404,480**

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Operating Revenues	
Charges for services	\$ 858,941
Intergovernmental	
Minnesota Department of Health	
Community health services	\$ 109,344
Family planning	5,408
Long-Term Care (LTC) - MN Choice	14,636
Quality Improvement Grant	917
Child and Teen Checkups (CTC) Outreach Program	14,194
State Health Improvement Grant	6,534
Federal grants	
ARRA - Immunization	4,054
Immunization grants	1,500
Women, Infants, and Children (WIC) Program	121,832
Self- Assessment Grant	514
Family planning	1,269
Child and Teen Checkups (CTC) Outreach Grant	14,194
Universal Newborn Hearing Screenings	675
Public Health Emergency Preparedness	37,923
Temporary Assistance for Needy Families	28,502
Maternal and Child Health (MHC)	30,418
Local	
Transfers from member counties	285,058
Total intergovernmental	\$ 676,972
Miscellaneous	\$ 39,046
Total Operating Revenues	\$ 1,574,959
Operating Expenses	
Personal services	\$ 1,154,868
Nursing services	131,496
Contracted services	150,016
Supplies	39,627
Depreciation	21,977
Total Operating Expenses	\$ 1,497,984
Operating Income (Loss)	\$ 76,975
Nonoperating Revenues (Expenses)	
Interest income	168
Change in Net Assets	\$ 77,143
Net Assets - January 1	327,337
Net Assets - December 31	\$ 404,480

The notes to the financial statements are an integral part of this statement.

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 923,205
Payments to suppliers	(190,769)
Payments to employees	<u>(1,329,747)</u>
Net cash provided by (used in) operating activities	\$ (597,311)
Cash Flows from Noncapital Financing Activities	
Intergovernmental receipts	676,972
Cash Flows from Investing Activities	
Interest received	<u>173</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 79,834
Cash and Cash Equivalents at January 1	<u>315,176</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 395,010</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	<u>\$ 76,975</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 21,977
Intergovernmental revenues	(676,972)
Changes in assets and liabilities	
Accounts receivable	(187)
Due from other governments	25,405
Accounts payable	(14,682)
Salaries payable	(1,994)
Due to other governments	(4,964)
Compensated absences - current	(11,856)
Compensated absences - long-term	<u>(11,013)</u>
Total adjustments	<u>\$ (674,286)</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (597,311)</u></u>

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

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

1. Summary of Significant Accounting Policies

Stevens Traverse Grant Public Health's (Health Service) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Health Service has the option to apply FASB pronouncements issued after that date, the Health Service has chosen not to do so. The more significant accounting policies established in GAAP and used by the Health Service are discussed below.

A. Financial Reporting Entity

Stevens Traverse Public Health was established pursuant to Minn. Stat. ch. 145A and a joint powers agreement effective July 1, 1995. Effective July 1, 2004, Grant County Public Health formally joined the organization, resulting in the new entity, Stevens Traverse Grant Public Health. The Stevens Traverse Grant Joint Public Health Board consists of nine members--comprising three Commissioners from each of the respective counties.

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

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

Stevens County, as an agent, reports the cash transactions of Stevens Traverse Grant Public Health in an agency fund on its annual financial statements.

Joint Ventures

The Health Service participates in a joint venture which is described in Note 5.B.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The Health Service's operations are accounted for as an enterprise fund, with a set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. Enterprise funds are used to account for: (1) operations that provide a service to citizens financed primarily by charging users for that service; and (2) activities where the periodic measurement of net income is considered appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Measurement Focus and Basis of Accounting

Stevens Traverse Grant Public Health'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. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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

D. Budget

The Health Service adopts an annual budget prepared on the accrual basis. The budget is approved by the Stevens Traverse Grant Joint Public Health Board and submitted to all member counties. The County Board of each county represented approves or disapproves its portion of the budget.

E. Assets, Liabilities, and Net Assets

1. Assets

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents include cash in custody of the Stevens County Treasurer and petty cash and change funds.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets

1. Assets (Continued)

Receivables

The Health Service provides services to certain clients covered by various third-party reimbursement programs at varying rates, generally below established charges. Variances from established charges are recorded on the basis of preliminary estimates of the amounts to be received from third parties and adjusted in future periods as final settlements are determined.

Capital Assets and Depreciation

Capital assets, which include furniture, equipment, and vehicles, are reported in the financial statements. Capital assets are defined by the Health Service as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three 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.

Depreciation is determined using the straight-line method for the estimated useful lives of the assets:

Furniture, equipment, and vehicles	3 - 20 years
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2. Liabilities

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.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

F. Revenues and Expenses

1. Operating and Nonoperating Revenues

The Health Service distinguishes operating revenues from nonoperating revenues. Operating revenues generally result from providing services and producing and delivering goods in connection with an activity's principal ongoing operations. Operating revenues include charges for services and intergovernmental operating grants, since they constitute the Health Service's ongoing operations. All revenues not meeting this definition are reported as nonoperating revenues.

2. Expenses

Stevens Traverse Grant Public Health recognizes expenses, including compensated absences, when incurred. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets.

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Receivables

Receivables as of December 31, 2011, are as follows:

Accounts	\$ 7,833
Due from other governments	<u>76,939</u>
Total	<u>\$ 84,772</u>

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

2. Detailed Notes

A. Assets

1. Receivables (Continued)

Stevens Traverse Grant Public Health did not have any receivables scheduled to be collected beyond one year.

2. Capital Assets

A summary of the changes in capital asset accounts for the year ended December 31, 2011, is:

	Balance January 1, 2011	Depreciation Expense	Additions	Deletions	Balance December 31, 2011
Capital assets, depreciated					
Furniture, equipment, and vehicles	\$ 123,021	\$ -	\$ -	\$ -	\$ 123,021
Less: accumulated depreciation	<u>(51,100)</u>	<u>(21,977)</u>	<u>-</u>	<u>-</u>	<u>(73,077)</u>
Net Capital Assets	<u>\$ 71,921</u>	<u>\$ (21,977)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,944</u>

B. Liabilities

Long-Term Debt

The following is a summary of the changes in long-term debt of Stevens Traverse Grant Public Health.

Compensated absences payable - January 1	\$ 104,695
Change in compensated absences	<u>(22,869)</u>
Compensated absences payable - December 31	<u>\$ 81,826</u>
Due within one year	<u>\$ 42,325</u>

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

3. Pension Plans

A. Plan Description

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

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

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service (five years for those first eligible for membership after June 30, 2010). Defined retirement benefits are based on a member's average salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For General Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for members hired prior to July 1, 1989, and is the age for unreduced Social Security benefits capped at age 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

3. Pension Plans

A. Plan Description (Continued)

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

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The Health Service makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary.

Stevens Traverse Grant Public Health is required to contribute the following percentages of annual covered payroll in 2011:

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

Stevens Traverse Grant Public Health's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund were:

<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 62,112	\$ 62,900	\$ 57,032

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

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

4. Risk Management

Stevens Traverse Grant Public Health is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To cover these risks, the Health Service is a member of the Minnesota Counties Intergovernmental Trust (MCIT). The Health Service retains risk for the deductible portions of the 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 in excess of insurance coverage for any of 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 \$450,000 per claim in 2011 and \$460,000 per claim in 2012. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess Stevens Traverse Grant Public Health in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and Stevens Traverse Grant Public Health 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 Stevens Traverse Grant Public Health 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 Stevens Traverse Grant Public Health expects such amounts, if any, to be immaterial.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

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

B. Joint Venture

Prime West Central County-Based Purchasing Initiative

The Prime West Central County-Based Purchasing Initiative was established in December 1998 by a joint powers agreement among Stevens, Traverse, Grant, and ten other counties, under the authority of Minn. Stat. § 471.59. The purpose of this agreement is to plan and administer a multi-county, county-based purchasing program for medical assistance and general assistance medical care services and other health care programs as authorized by Minn. Stat. § 256B.692.

Control of the Prime West Central County-Based Purchasing Initiative is vested in a Joint Powers Board, comprising one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

In the event of termination of the joint powers agreement, all property purchased or owned pursuant to this agreement shall be sold, and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share.

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties, if necessary, to cover operational costs. Stevens Traverse Grant Public Health did not contribute any funds in 2011.

Complete financial information can be obtained from:

Prime West Health System
2209 Jefferson Street
Suite 101
Alexandria, Minnesota 56308

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-1 Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: Stevens Traverse Grant Public Health (Health Service) has a limited number of individuals who are responsible for billing, collecting, recording, and depositing receipts.

Context: Due to the limited number of personnel within Stevens Traverse Grant Public Health, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Stevens Traverse Grant Public Health; however, Stevens Traverse Grant Public Health's 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 accounting point of view.

Effect: Inadequate segregation of duties could adversely affect Stevens Traverse Grant Public Health's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: Stevens Traverse Grant Public Health does not have the economic resources needed to hire additional qualified accounting staff in order to adequately segregate assigned accounting functions.

Recommendation: We recommend the Stevens Traverse Grant Joint Public Health Board and management be aware of the lack of segregation of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff to the extent possible.

Client's Response:

The Stevens Traverse Grant Joint Public Health Board and management is aware of the issue regarding lack of segregation of duties in the agency due to our limited staffing capabilities. We have implemented many oversight procedures to monitor the duties of the accounting staff. An example would be that our money is recorded on a receipt log upon arriving in our office by one employee, then it is given to a second employee who prepares the weekly deposit, and then the Financial Manager reviews the deposit and reconciles to the receipt log before each weekly deposit is made. A similar process has also been implemented regarding warrant issuing procedures.

07-1 Documenting and Monitoring Internal Controls

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Joint Public Health Board, management, and for external financial reporting.

Condition: Although Stevens Traverse Grant Public Health 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.

Context: 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.

Effect: Weaknesses in internal control could go undetected, which could affect Stevens Traverse Grant Public Health's ability to detect material misstatements in the financial statements.

Cause: Stevens Traverse Grant Public Health has not had the staffing resources available to complete the risk assessment process.

Recommendation: We recommend that Stevens Traverse Grant Public Health's management document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize those risks. At a minimum, the following significant internal control areas should be documented: cash and investment activities, capital assets, major funding sources, expenditure/expense processing, and payroll and related liabilities processing. 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:

Stevens Traverse Grant Public Health has established a committee that meets on an annual basis to discuss internal controls and the processes used in our office when receipting and disbursing funds. This committee met for the first time in 2012 and plans to continue to meet annually to review our internal control procedures. We have also created a Stevens Traverse Grant Public Health agency accounting manual that details each process in the accounting area of Public Health. This has been helpful in providing training for other accounting staff and review of procedures and monitoring of internal control.

PREVIOUSLY REPORTED ITEM RESOLVED

Internal Control Over Financial Reporting (06-1)

Stevens Traverse Grant Public Health needed to broaden its participation in the preparation of its financial statements and not rely so extensively on its external auditors for financial reporting.

Resolution

Stevens Traverse Grant Public Health prepared the trial balance and other supporting schedules necessary for preparing the basic financial statements and related notes. Stevens Traverse Grant Public Health has improved its understanding and preparation of underlying accounting data used in the preparation of the financial statements.

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REBECCA OTTO
STATE AUDITOR

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Stevens Traverse Grant Joint Public Health Board
Stevens Traverse Grant Public Health

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements of Stevens Traverse Grant Public Health (Health Service) as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Stevens Traverse Grant Public Health's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Service's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Service's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Health Service'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 07-1. A significant deficiency is a deficiency, or a 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 basic financial statements of Stevens Traverse Grant Public Health as of and for the year ended December 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in contracting and bidding and public indebtedness because Stevens Traverse Grant Public Health did not do any contracting and bidding in 2011 and has no debt.

The results of our tests indicate that for the items tested, Stevens Traverse Grant Public Health complied with the material terms and conditions of applicable legal provisions.

Stevens Traverse Grant Public Health'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 the Health Service's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Stevens Traverse Grant Joint Public Health Board, management, and others within Stevens Traverse Grant Public Health 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

December 20, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR