

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

COTTONWOOD-JACKSON
COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA

YEARS ENDED DECEMBER 31, 2006, 2007, AND 2008

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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**COTTONWOOD-JACKSON
COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

Years Ended December 31, 2006, 2007, and 2008



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

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**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Statement of Net Assets	Exhibit 1	8
Statement of Revenues, Expenses, and Changes in Net Assets	Exhibit 2	9
Statement of Cash Flows	Exhibit 3	10
Notes to the Financial Statements		11
Management and Compliance Section		
Schedule of Findings and Recommendations		26
Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance		30

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**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

ORGANIZATION
2008

Office	Name
Board of Health	
Cottonwood County Commissioners	
1st District	Gary Sorenson
2nd District	Ron Kuecker
3rd District	Chuck Severson ²
4th District	Norman Holman
5th District	John Oeltjenbruns
Jackson County Commissioners	
1st District	Craig Rubis
2nd District	Loren Tusa
3rd District	Kathy Hohenstein
4th District	Roger Ringkob ¹
5th District	Robert Ferguson ³
Nursing Director/Administrator	Patricia Stewart

¹Chair 2008

²Chair 2007

³Chair 2006

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of Health
Cottonwood-Jackson Community Health Services

We have audited the basic financial statements of Cottonwood-Jackson Community Health Services as of and for the years ended December 31, 2006, 2007, and 2008, as listed in the table of contents. 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. 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 financial statements referred to above present fairly, in all material respects, the financial position of Cottonwood-Jackson Community Health Services as of December 31, 2006, 2007, and 2008, and the results of its operations and its cash flows for the years 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 required supplementary information. However, we did not audit the information and express no opinion on it.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

August 13, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006, 2007, AND 2008
(Unaudited)**

Cottonwood-Jackson Community Health Services' Management's Discussion and Analysis (MD&A) provides an overview of the Health Services' financial activities for the fiscal years ended December 31, 2006, 2007, and 2008. 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 Services' financial statements.

The Cottonwood-Jackson Community Health Services is a joint powers enterprise operation of Cottonwood and Jackson Counties created to provide community health care for the residents of the two-county area.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Cottonwood-Jackson Community Health Services' 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 Services' financial activities and consist of the following:

- The statement of net assets compares the assets and liabilities to give an overall view of the financial health of the Health Services.
- The statement of revenues, expenses, and changes in net assets provides information on an aggregate view of the Health Services' finances. 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 Services.

FINANCIAL ANALYSIS

Net Assets

	2005 (Restated)	2006	2007	2008	Percent Change (%) 2006 to 2008	Increase (Decrease) 2006 to 2008
Assets						
Current and other assets	\$ 419,205	\$ 419,552	\$ 367,959	\$ 299,696	(29)	\$ (119,856)
Capital assets	11,538	37,735	50,355	44,399	18	6,664
Total Assets	\$ 430,743	\$ 457,287	\$ 418,314	\$ 344,095	(25)	\$ (113,192)
Liabilities						
Current liabilities	\$ 57,700	\$ 90,486	\$ 117,333	\$ 116,691	29	\$ 26,205
Noncurrent liabilities	77,303	75,455	80,078	85,944	14	10,489
Total Liabilities	\$ 135,003	\$ 165,941	\$ 197,411	\$ 202,635	22	\$ 36,694
Net Assets						
Invested in capital assets	\$ 11,538	\$ 37,735	\$ 50,355	\$ 44,399	18	\$ 6,664
Restricted	58,628	60,257	58,851	60,253	-	(4)
Unrestricted	225,574	193,354	111,697	36,808	(81)	(156,546)
Total Net Assets	\$ 295,740	\$ 291,346	\$ 220,903	\$ 141,460	(51)	\$ (149,886)

The increase in total liabilities from 2006 to 2008 is due to an increase in salaries payable and an increase in long-term compensated absences payable. Salaries payable is due to a full two weeks of salaries earned in 2006 but not paid until 2007. Salaries earned in 2007 but paid in 2008 amounted to two weeks and one day. Salaries earned in 2008 but paid in 2009 amounted to two weeks and three days. Additionally, the Health Services has a number of employees accruing vacation and sick leave at the maximum rate and thus, the reason for the increase in long-term compensated absences for each of the reporting years.

Cottonwood-Jackson Community Health Services tried to maximize its restricted investments by investing in certificates of deposit with high interest rates as well as adding to total amount invested. In 2007, the Health Services awarded three \$1,000 college scholarships from the Restricted Net Assets account, which accounts for the decrease. Because of the investment strategies, the Restricted Net Assets had returned to 2006 levels by the end of 2008.

Changes in Revenues, Expenses, and Net Assets

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	Percent Change (%) 2006 to 2008	Increase (Decrease) 2006 to 2008
Operating Revenues						
Charges for services	\$ 566,323	\$ 684,191	\$ 574,620	\$ 702,661	3	\$ 18,470
Miscellaneous	<u>36,205</u>	<u>8,326</u>	<u>20,353</u>	<u>11,672</u>	40	<u>3,346</u>
Total Operating Revenues	\$ 602,528	\$ 692,517	\$ 594,973	\$ 714,333	3	\$ 21,816
Nonoperating Revenues						
Intergovernmental	671,493	658,717	876,157	870,147	32	211,430
Interest and donations	<u>2,697</u>	<u>8,164</u>	<u>4,789</u>	<u>5,055</u>	(38)	<u>(3,109)</u>
Total Revenues	<u>\$ 1,276,718</u>	<u>\$ 1,359,398</u>	<u>\$ 1,475,919</u>	<u>\$ 1,589,535</u>	17	<u>\$ 230,137</u>
Operating Expenses						
Professional services	\$ 1,172,383	\$ 1,359,508	\$ 1,503,150	\$ 1,574,269	16	\$ 214,761
Administration	46,472	1,247	38,816	88,753	702	87,506
Depreciation	<u>10,843</u>	<u>3,037</u>	<u>4,396</u>	<u>5,956</u>	96	<u>2,919</u>
Total Expenses	<u>\$ 1,229,698</u>	<u>\$ 1,363,792</u>	<u>\$ 1,546,362</u>	<u>\$ 1,668,978</u>	22	<u>\$ 305,186</u>
Change in Net Assets	<u>\$ 47,020</u>	<u>\$ (4,394)</u>	<u>\$ (70,443)</u>	<u>\$ (79,443)</u>	(171)	<u>\$ (75,049)</u>

Total revenues increased from 2006 to 2008. Cottonwood-Jackson Community Health Services saw a 3 percent increase in charges for services. The increase in these dollars can be attributed to the increased patient load in the Home Health Care Program and an increase of billable visits in the Family Health Program. It should be noted that in 2006, tobacco grant dollars in the amount of \$82,120 were reported in the Operating Revenue Charges for Services. Beginning January 1, 2007, all tobacco grant dollars were shifted to Intergovernmental Nonoperating Revenue. When the tobacco grant dollars are subtracted from the 2006 Operating Revenue Charges for Services, the increase from 2006 to 2008 was \$100,590, or 17 percent, which is a true reflection of the increased revenues from the Home Health Care and Family Health Programs.

Beginning January 1, 2006, Cottonwood-Jackson Community Health Services no longer contracted with Nobles-Rock Public Health Services to participate in the Smoke Free Communities Grant. On this date, Cottonwood-Jackson Community Health Services joined with Redwood County Public Health Service to participate in the Tobacco Free Communities Grant. This grant ended December 31, 2006. Cottonwood-Jackson Community Health Services and Redwood County Public Health Service began the Reducing Youth Exposure to Tobacco Influences grant on January 1, 2007.

Total expenses increased from 2006 to 2008 due to the increase in services provided. Increased Home Care clients resulted in additional Home Health Aide hours and medical supplies to care for those clients. An additional Family Health Nurse was added to the program in 2008 due to an increased client load in this area. New staff was hired, and supplies and equipment were purchased to carry out the Reducing Youth Exposure to Tobacco Influences Work Plan. This was in addition to the increase in employee salaries and health insurance premiums. The Health Services also purchased three vehicles in 2006 and 2007 amounting to \$46,250.

CAPITAL ASSETS ADMINISTRATION

Capital Assets (Net of Depreciation)

	2005 (Restated)	2006	2007	2008	Percent Change (%) 2006 to 2008	Increase (Decrease) 2006 to 2008
Capital assets	\$ 11,538	\$ 37,735	\$ 50,355	\$ 44,399	18	\$ 6,664

At the beginning of 2006, the Health Services' Capital Assets Inventory was updated to include assets with a value of \$5,000 or more. As such, the only assets owned by the Health Services at or over this threshold are its vehicles. In 2006, two vehicles were added to the inventory. Another vehicle was added to the inventory in 2007 to replace a vehicle leased from the State of Minnesota. The Health Services currently owns four vehicles.

FUTURE EVENTS

Cottonwood-Jackson Community Health Services looks forward to the future. The Cottonwood-Jackson CHS Health Board and administration is continually assessing the needs of Cottonwood and Jackson Counties' citizens and the fees, grants, and state and local dollars it will be receiving for the coming year to meet those needs. The Health Services will evaluate staffing patterns to handle the activities for the coming year. We will monitor the Health Services' financial status monthly and monitor activities planned for our community.

CONTACTING COTTONWOOD-JACKSON CHS FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Cottonwood-Jackson Community Health Services' finances and to show accountability for the money it receives. If you have questions about this report or need additional financial information, contact Patricia A. Stewart, Administrator, Cottonwood-Jackson Community Health Services, 407 - 5th Street, Suite 209; Jackson, Minnesota 56143.

BASIC FINANCIAL STATEMENTS

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**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2006, 2007, AND 2008**

	2006	2007	2008
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 145,781	\$ 175,289	\$ 82,938
Petty cash and change funds	60	60	60
Accounts receivable - net	114,312	79,919	101,989
Due from other governments	99,142	53,840	54,456
Total unrestricted current assets	\$ 359,295	\$ 309,108	\$ 239,443
Restricted assets			
Cash and pooled investments	59,063	57,387	59,286
Accrued interest receivable	1,194	1,464	967
Total current assets	\$ 60,257	\$ 58,851	\$ 60,253
Noncurrent assets			
Capital assets			
Depreciable - net	37,735	50,355	44,399
Total Assets	\$ 457,287	\$ 418,314	\$ 344,095
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 20,602	\$ 37,735	\$ 21,207
Salaries payable	35,984	43,621	56,871
Compensated absences payable - current	33,900	35,977	38,613
Total current liabilities	\$ 90,486	\$ 117,333	\$ 116,691
Noncurrent liabilities			
Compensated absences payable - long-term	75,455	80,078	85,944
Total Liabilities	\$ 165,941	\$ 197,411	\$ 202,635
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 37,735	\$ 50,355	\$ 44,399
Restricted for			
Endowments - expendable	14,757	13,351	14,753
Endowments - nonexpendable	45,500	45,500	45,500
Unrestricted	193,354	111,697	36,808
Total Net Assets	\$ 291,346	\$ 220,903	\$ 141,460

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

Page 8

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007, AND 2008**

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Operating Revenues			
Charges for services	\$ 684,191	\$ 574,620	\$ 702,661
Miscellaneous	8,326	20,353	11,672
Total Operating Revenues	\$ 692,517	\$ 594,973	\$ 714,333
Operating Expenses			
Administration	\$ 1,247	\$ 38,816	\$ 88,753
Healthy communities	490,102	628,014	523,712
Infectious disease	49,577	43,956	48,635
Disaster preparation	62,477	69,074	64,962
Health services	757,352	762,106	936,960
Depreciation	3,037	4,396	5,956
Total Operating Expenses	\$ 1,363,792	\$ 1,546,362	\$ 1,668,978
Operating Income (Loss)	\$ (671,275)	\$ (951,389)	\$ (954,645)
Nonoperating Revenues (Expenses)			
Intergovernmental			
State			
Department of Public Health	\$ 159,084	\$ 366,554	\$ 347,119
Department of Human Services	27,525	27,650	26,875
Miscellaneous boards	4,326	4,326	4,326
Federal			
Women, Infants, and Children (WIC)	73,585	80,970	93,980
Special Education Grants for Infants and Families	710	-	-
Abstinence Education Program	12,941	-	-
Immunization Grants	-	3,500	-
Centers for Disease Control and Prevention	57,472	58,869	52,135
Temporary Assistance for Needy Families (TANF)	20,314	30,648	39,611
Medical Assistance Program	27,525	27,650	26,875
Maternal and Child Health (MCH)	34,937	34,626	34,626
Local			
County appropriations	225,298	241,364	244,600
Other	15,000	-	-
Interest income	4,010	4,529	4,167
Gifts and contributions	4,154	260	888
Total Nonoperating Revenues (Expenses)	\$ 666,881	\$ 880,946	\$ 875,202
Increase (Decrease) in Net Assets	\$ (4,394)	\$ (70,443)	\$ (79,443)
Net Assets - January 1, restated (Note 1.G.)	295,740	291,346	220,903
Net Assets - December 31	\$ 291,346	\$ 220,903	\$ 141,460

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

Page 9

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007, AND 2008
Increase (Decrease) in Cash and Cash Equivalents**

	2006	2007	2008
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 638,938	\$ 645,409	\$ 682,944
Payments to employees and suppliers	(1,329,817)	(1,510,496)	(1,657,798)
Net cash provided by (used in) operating activities	<u>\$ (690,879)</u>	<u>\$ (865,087)</u>	<u>\$ (974,854)</u>
Cash Flows from Noncapital Financing Activities			
Intergovernmental	\$ 446,187	\$ 664,052	\$ 634,250
County appropriations	225,298	241,364	244,600
Other local grants	15,000	-	-
Contributions	4,154	260	888
Net cash provided by (used in) noncapital financing activities	<u>\$ 690,639</u>	<u>\$ 905,676</u>	<u>\$ 879,738</u>
Cash Flows from Capital and Related Financing Activities			
Purchases of capital assets	\$ (29,234)	\$ (17,016)	\$ -
Cash Flows from Investing Activities			
Investment earnings received	\$ 3,649	\$ 4,259	\$ 4,664
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (25,825)</u>	<u>\$ 27,832</u>	<u>\$ (90,452)</u>
Cash and Cash Equivalents at January 1	<u>230,729</u>	<u>204,904</u>	<u>232,736</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 204,904</u></u>	<u><u>\$ 232,736</u></u>	<u><u>\$ 142,284</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating Income (Loss)	<u>\$ (671,275)</u>	<u>\$ (951,389)</u>	<u>\$ (954,645)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	\$ 3,037	\$ 4,396	\$ 5,956
(Increase) decrease in accounts receivable	(10,351)	34,393	(22,070)
(Increase) decrease in due from other governments	(43,228)	16,043	(9,319)
Increase (decrease) in accounts payable	8,356	17,133	(16,528)
Increase (decrease) in salaries payable	3,791	7,637	13,250
Increase (decrease) in compensated absences payable	19,280	6,700	8,502
Increase (decrease) in due to other governments	(489)	-	-
Total adjustments	<u>\$ (19,604)</u>	<u>\$ 86,302</u>	<u>\$ (20,209)</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (690,879)</u></u>	<u><u>\$ (865,087)</u></u>	<u><u>\$ (974,854)</u></u>

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

Page 10

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**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006, 2007, AND 2008**

1. Summary of Significant Accounting Policies

Cottonwood-Jackson Community Health Services' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the years ended December 31, 2006, 2007, and 2008. 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 Cottonwood-Jackson Community Health Services' Board of Health has the option to apply FASB pronouncements issued after that date, the Board of Health has chosen not to do so. The more significant accounting policies established in GAAP and used by the Health Services are discussed below.

A. Financial Reporting Entity

Cottonwood-Jackson Community Health Services operates under Minn. Stat. ch. 145A and was established by a joint powers agreement effective January 1, 1977. The Board of Health is made up of the five elected County Commissioners from both Cottonwood and Jackson Counties.

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 the Health Services into the community.

B. Basis of Presentation

Cottonwood-Jackson Community Health Services' accounts are organized as an enterprise activity. The operations are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, equities, revenues, and expenses. Enterprise activities are used to account for operations that provide a service to citizens financed primarily by charges to users of that service, and activities where the periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

D. Budgetary Data

An annual budget is prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. This budget is approved by the Cottonwood-Jackson Community Health Services Board of Health.

E. Assets, Liabilities, and Equity Accounts

1. Assets

Cash and Cash Equivalents

For purposes of the statement of cash flows, all cash and highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

Accounts Receivable

A summary of accounts receivable, including allowance for uncollectible accounts at December 31, 2006, 2007, and 2008, is:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Gross accounts receivable	\$ 167,179	\$ 140,169	\$ 138,390
Less: allowance for uncollectibles	<u>(52,867)</u>	<u>(60,250)</u>	<u>(36,401)</u>
Net Accounts Receivable	<u>\$ 114,312</u>	<u>\$ 79,919</u>	<u>\$ 101,989</u>

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Equity Accounts

1. Assets (Continued)

Restricted Assets

Certain funds are classified as restricted assets because their use is limited. Included in restricted assets are funds set aside to be used for the Alice Mann Good for People Education and Scholarship Fund and interest receivable for those funds. When both restricted and unrestricted resources are available for use, it is the Health Services' policy to use restricted resources first and then unrestricted resources as needed.

Capital Assets

Capital assets are defined by the Health Services as assets with an initial individual cost of \$5,000 or more. Capital assets are recorded at cost and consist of vehicles. Depreciation is provided on the straight-line basis over ten years, the estimated useful lives of the assets.

2. Liabilities

Compensated Absences

Compensated absences are considered expenses when incurred. Earned but unpaid vacation and sick leave that is vested or expected to vest is shown on the balance sheet as a long-term liability. A current portion of the liability is calculated based on a five-year trend analysis.

3. Net Assets

Invested in capital assets represents the accumulated value of the capital assets of the Health Services, net of depreciation.

Restricted net assets represent the Alice Mann Good for People Education and Scholarship Fund. Unrestricted net assets represent the accumulated earnings of the Health Services.

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Equity Accounts (Continued)

4. 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 end of 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.

F. Revenues and Expenses

1. Revenues

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, revenues for non-exchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

Intergovernmental

Government-mandated non-exchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and state grants mandating the Health Services perform particular programs are government-mandated non-exchange transactions. Revenues are recognized when eligibility and time requirements are met, usually when the corresponding expense is incurred.

Voluntary non-exchange transactions result from legislative or contractual agreements, such as grants, entitlements, appropriations, and donations. The provider may establish purpose restrictions or eligibility requirements. Revenues are recognized in the year to which they apply according to the statute or contract. Other gifts and contributions from individuals are also considered voluntary non-exchange transactions and are generally recognized when received.

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

1. Summary of Significant Accounting Policies

F. Revenues and Expenses

1. Revenues (Continued)

Exchange Transactions

Other revenues, such as charges for services and investment income, are recognized as revenue when earned.

2. Expenses

Expenses are recognized when incurred.

G. Restatement

The December 31, 2005, net assets were restated to reflect the audited capital assets of Cottonwood-Jackson Community Health Services.

Net Assets - December 31, 2005	\$	335,177
Adjustment to capital assets		<u>(39,437)</u>
Net Assets - January 1, 2006	\$	<u>295,740</u>

2. Stewardship, Compliance, and Accountability

Budget

Following is a summary of the budgeted and actual amounts for the years ended December 31, 2006, 2007, and 2008:

	2006		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues	\$ 508,097	\$ 692,517	\$ 184,420
Operating Expenses	<u>1,315,936</u>	<u>1,363,792</u>	<u>(47,856)</u>
Operating Income (Loss)	\$ (807,839)	\$ (671,275)	\$ 136,564
Nonoperating Revenues (Expenses)	<u>807,839</u>	<u>666,881</u>	<u>(140,958)</u>
Net Income (Loss)	<u>\$ -</u>	<u>\$ (4,394)</u>	<u>\$ (4,394)</u>

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Budget (Continued)

	2007		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues	\$ 578,170	\$ 594,973	\$ 16,803
Operating Expenses	1,513,260	1,546,362	(33,102)
Operating Income (Loss)	\$ (935,090)	\$ (951,389)	\$ (16,299)
Nonoperating Revenues (Expenses)	935,090	880,946	(54,144)
Net Income (Loss)	\$ -	\$ (70,443)	\$ (70,443)

	2008		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues	\$ 728,572	\$ 714,333	\$ (14,239)
Operating Expenses	1,659,670	1,668,978	(9,308)
Operating Income (Loss)	\$ (931,098)	\$ (954,645)	\$ (23,547)
Nonoperating Revenues (Expenses)	941,698	875,202	(66,496)
Net Income (Loss)	\$ 10,600	\$ (79,443)	\$ (90,043)

3. Detailed Notes

A. Assets

Deposits and Investments

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

	2006	2007	2008
Petty cash and change funds	\$ 60	\$ 60	\$ 60
Savings and checking	162,037	150,701	89,971
Certificates of deposit	45,500	45,500	45,500
Cash with fiscal agent	(2,693)	36,475	6,753
Total Deposits and Investments	\$ 204,904	\$ 232,736	\$ 142,284

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

3. Detailed Notes

A. Assets

Deposits and Investments (Continued)

	2006	2007	2008
Cash and cash equivalents	\$ 145,781	\$ 175,289	\$ 82,938
Petty cash and change funds	60	60	60
Restricted cash	59,063	57,387	59,286
Total Cash	\$ 204,904	\$ 232,736	\$ 142,284

1. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize Cottonwood-Jackson Community 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 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 standby 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, 2008, the Health Services' deposits were not exposed to custodial credit risk. At December 31, 2006 and 2007, \$25,379 and \$39,813, respectively, of the Health Services' deposits were exposed to custodial credit risk.

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

3. Detailed Notes

A. Assets

Deposits and Investments (Continued)

2. 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 years ended December 31, 2006, 2007, and 2008, Cottonwood-Jackson Community Health Services had no investments.

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

3. Detailed Notes

A. Assets (Continued)

Due From Other Governments

The following amounts were due from other governments at December 31, 2006, 2007, and 2008:

	December 31		
	2006	2007	2008
Grants			
Federal	\$ 27,812	\$ 26,655	\$ 17,952
State	44,201	26,885	35,927
Local	27,129	300	577
	<u>99,142</u>	<u>53,840</u>	<u>54,456</u>
Total	<u>\$ 99,142</u>	<u>\$ 53,840</u>	<u>\$ 54,456</u>

Capital Assets

A summary of capital assets at December 31, 2006, 2007, and 2008, follows:

	Unaudited Balance December 31, 2005	Restatement	Balance January 1, 2006
Equipment	\$ 94,130	\$ (80,817)	\$ 13,313
Less: accumulated depreciation	(44,486)	42,711	(1,775)
	<u>49,644</u>	<u>(38,106)</u>	<u>11,538</u>
Total	<u>\$ 49,644</u>	<u>\$ (38,106)</u>	<u>\$ 11,538</u>

	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
Equipment	\$ 13,313	\$ 29,234	\$ -	\$ 42,547
Less: accumulated depreciation	(1,775)	(3,037)	-	(4,812)
	<u>11,538</u>	<u>26,197</u>	<u>-</u>	<u>37,735</u>
Total	<u>\$ 11,538</u>	<u>\$ 26,197</u>	<u>\$ -</u>	<u>\$ 37,735</u>

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

3. Detailed Notes

A. Assets

Capital Assets (Continued)

	Balance January 1, 2007	Additions	Deletions	Balance December 31, 2007
Equipment	\$ 42,547	\$ 17,016	\$ -	\$ 59,563
Less: accumulated depreciation	(4,812)	(4,396)	-	(9,208)
Total	<u>\$ 37,735</u>	<u>\$ 12,620</u>	<u>\$ -</u>	<u>\$ 50,355</u>

	Balance January 1, 2008	Additions	Deletions	Balance December 31, 2008
Equipment	\$ 59,563	\$ -	\$ -	\$ 59,563
Less: accumulated depreciation	(9,208)	(5,956)	-	(15,164)
Total	<u>\$ 50,355</u>	<u>\$ (5,956)</u>	<u>\$ -</u>	<u>\$ 44,399</u>

B. Liabilities

Vacation and Sick Leave

Under Cottonwood-Jackson Community Health Services' personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 5 to 20 days per year. Sick leave accrual is 12 days per year.

Unused accumulated vacation and vested sick leave are paid to employees upon termination. Unvested sick leave is available to employees in the event of illness-related absences and is not paid to them at termination.

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

3. Detailed Notes

B. Liabilities (Continued)

Compensated Absences

The net changes in compensated absences for the years ended December 31, 2006, 2007, and 2008, are:

	December 31		
	2006	2007	2008
Compensated absences - January 1	\$ 90,075	\$ 109,355	\$ 116,055
Net changes	19,280	6,700	8,502
Compensated absences - December 31	<u>\$ 109,355</u>	<u>\$ 116,055</u>	<u>\$ 124,557</u>
Estimated payable within a year	<u>\$ 33,800</u>	<u>\$ 35,977</u>	<u>\$ 38,613</u>

4. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Cottonwood-Jackson Community Health Services are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). 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.

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 defined 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.

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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 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. 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.

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 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.

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. Cottonwood-Jackson Community Health Services makes annual contributions to the pension plans equal to the amount required by state statutes.

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent for 2006, 9.10 and 5.75 percent for 2007, and 9.10 and 6.00 percent for 2008, respectively, of their annual covered salary.

Cottonwood-Jackson Community Health Services is required to contribute the following percentages of annual covered payroll in 2006, 2007, 2008, and 2009:

	2006	2007	2008	2009
Public Employees Retirement Fund				
Basic Plan members	11.78%	11.78%	11.78%	11.78%
Coordinated Plan members	6.0	6.25	6.50	6.75

Cottonwood-Jackson Community Health Services' contributions for the years ending December 31, 2008, 2007, 2006, 2005, and 2004, for the Public Employees Retirement Fund were:

	2008	2007	2006	2005	2004
Public Employees Retirement Fund	\$ 60,650	\$ 55,303	\$ 47,386	\$ 40,186	\$ 35,903

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

5. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

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

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

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

B. Risk Management

The Health Services 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. The Health Services is managing these risks with a membership in the Minnesota Counties Insurance Trust (MCIT), a public entity risk pool. The Health Services retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements.

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 \$390,000, \$400,000, \$410,000, and \$430,000 per claim in 2006, 2007, 2008, and 2009, respectively. 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.

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.

For health insurance, the Health Services participates in Jackson County's self-insurance program. Jackson County handles its self-insurance in its General Fund. Additional disclosures, as required by GASB Statement No. 10, *Accounting and Reporting for Risk Financing and Related Insurance Issues*, are disclosed on a County-wide basis in the Jackson County Annual Financial Report.

The Health Services did not have a loss exceeding the limits of insurance coverage for any of the past three years. There were no significant reductions in insurance from the prior year.

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

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

C. Jointly-Governed Organizations

Cottonwood County Family Services Collaborative provides for the improvement in the social, emotional, educational, and economic outcomes of all Cottonwood County children, adolescents, and their families through activities that coordinate support and services. During 2006, Cottonwood-Jackson Community Health Services paid \$300, and in 2007 and 2008, the Health Services paid \$500 per year to the Collaborative.

Jackson County Children's Mental Health and Family Services Network Collaborative promotes the improvement of the outcome of Jackson County children and their families through the utilization of existing resources by creating a more efficient and effective system of delivering services. During 2006, 2007, and 2008, the Health Services paid \$500 per year to the Collaborative.

The Minnesota Counties Computer Cooperative provides computer programming services for Cottonwood-Jackson Community Health Services. During 2006, 2007, and 2008, the Health Services purchased no services.

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**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007, AND 2008**

FINDINGS AND RECOMMENDATIONS

A. INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEM NOT RESOLVED

99-1 Segregation of Duties

Due to the limited number of office personnel at Cottonwood-Jackson Community Health Services, segregation of accounting functions necessary to ensure adequate accounting control is not possible. This is not unusual in operations the size of the Health Services; however, the Health Services' management should constantly be aware of this condition and realize that a concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

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

Client's Response:

The Board of Health is aware that it is desirable to segregate duties in the accounting department of Cottonwood-Jackson CHS. However, due to the size of the agency, it is not possible to separate the accounting department to the desirable level of control nor is it economically feasible.

ITEM ARISING THIS YEAR

08-1 Audit Adjustment

A control deficiency 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 misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor

of a material misstatement in the financial statements not initially identified by the County's internal controls. During our audit, we proposed the following adjustment that resulted in significant changes to the Health Services' December 31, 2007, financial statements:

- a correction was made to adjust accounts payable, understated by \$23,651.

The inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend that the Health Services modify internal controls over financial reporting to detect misstatements in the financial statements.

Client's Response:

Cottonwood-Jackson CHS Management agrees with the findings of the audit. Additionally, Cottonwood-Jackson CHS Management will put controls in place to identify Accounts Receivables that are more than 60 days past due.

PREVIOUSLY REPORTED ITEM RESOLVED

Capital Assets (00-1)

Review of the Health Services' capital asset records disclosed the threshold used for capital assets did not agree with the policy, capital asset records did not provide detail of capital assets, additions and deletions were not identified and valued, and the same depreciation life was used for all assets

Resolution

Capital asset records reviewed included proper detail and followed the Health Services' policy.

B. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Collateral Pledged to Secure Deposits (05-1)

Federal deposit insurance (FDIC) and collateral pledged at December 31, 2005, were insufficient for the amount on deposit at the United Prairie Bank by \$25,439.

Resolution

Review of deposits disclosed no legal compliance issues concerning collateral for the years audited.

C. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

98-1 Disaster Recovery Plan

Cottonwood-Jackson Community Health Services rents time on Jackson County's AS/400 for recording financial transactions, disbursements, and payroll. In the event of a disaster, the Health Services would rely on Jackson County's disaster recovery plan to restore operations; however, Jackson County does not have a formal County Board-approved policy. The absence of a formal disaster recovery plan prevents the timely recovery of vital information and adds to the cost of any interruption.

We recommend Cottonwood-Jackson Community Health Services work with Jackson County to complete and approve a disaster recovery plan.

Client's Response:

Cottonwood-Jackson CHS is working with Jackson County to develop a disaster recovery plan.

D. OTHER ITEM FOR CONSIDERATION

Governmental Accounting Standards Board Statement

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides 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 statement, accounting for OPEB is now similar to the accounting used by governments for pension plans.

In 2008, the Legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows governments to create both revocable and irrevocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both revocable and irrevocable OPEB trusts; and
- it also permits governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

Some of the issues that the Cottonwood-Jackson Community Health Services' Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the Health Services' 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 Health Services' Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Health Services Board will have to comply with new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;
- if an OPEB trust will be established, the Health Services' Board will have to decide whether to establish a revocable or an irrevocable trust, and report that trust appropriately in the financial statements; and
- in order to determine annual costs and liabilities that need to be recognized, the Health Services' Board will have to decide whether to hire an actuary.

GASB 45 is applicable to Cottonwood-Jackson Community Health Services for the year ended December 31, 2009.



REBECCA OTTO
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Health
Cottonwood-Jackson Community Health Services

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of Cottonwood-Jackson Community Health Services as of and for the years ended December 31, 2006, 2007, and 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Health Services' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cottonwood-Jackson Community Health Services' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency and another deficiency that we consider to be a material deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Health Services' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted

accounting principles such that there is more than a remote likelihood that a misstatement of the Health Services' financial statements that is more than inconsequential will not be prevented or detected by the Health Services' internal control over financial reporting. We consider the deficiency listed in the Schedule of Findings and Recommendations as item 08-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Health Services' internal control over financial reporting. We believe that the deficiency identified as item 99-1 in the Schedule of Findings and Recommendations constitutes a material weakness.

Minnesota Legal Compliance

We have audited the financial statements of Cottonwood-Jackson Community Health Services as of and for the years ended December 31, 2006, 2007, and 2008, which collectively comprise the Health Services' 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.

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

Also included in the Schedule of Findings and Recommendations is a management practices comment and an other item for consideration. We believe these items to be of benefit to the Health Services and are reporting them for that purpose.

Cottonwood-Jackson Community Health Services' written responses to the significant deficiency, material weakness, and management practice comment identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Health Services' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Health, management, and others within Cottonwood-Jackson Community Health Services 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

August 13, 2009