

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

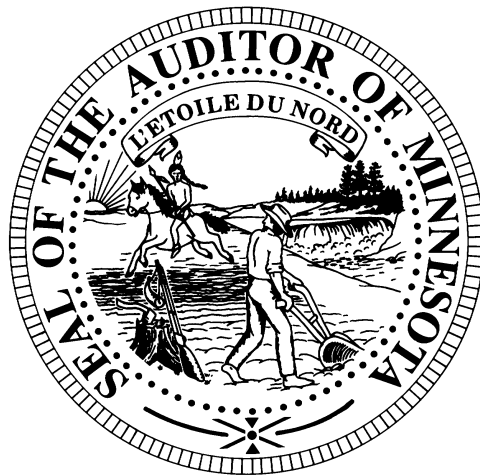
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

For the Year Ended December 31, 2004



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

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**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, 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	11
Notes to the Financial Statements		13
Supporting Schedule		
Schedule of Deposits	Schedule 1	25
Management and Compliance Section		
Schedule of Findings and Recommendations	Schedule 2	26
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>		29

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**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

ORGANIZATION
2004

Board of Health	Position	County	Term Expires
Richard Hanson	Chair	Swift	December 31, 2004
Lynn Anderson	Vice Chair	Yellow Medicine	December 31, 2004
Jeffrey Lopez	Member	Chippewa	December 31, 2004
Kenneth F. Koenen	Member	Chippewa	December 31, 2004
Gary Thostenson	Member	Chippewa	December 31, 2004
Jeanne Krueger	Member	Big Stone	December 31, 2004
Richard Lane	Member	Big Stone	December 31, 2004
Ivey Vonderharr	Member	Lac qui Parle	December 31, 2004
Vern Silvernale	Member	Lac qui Parle	December 31, 2004
Catherine Thomas	Member	Yellow Medicine	December 31, 2004

Health Advisory Committee

Janet Parker		Big Stone	Indefinite
Delores Baumhofer		Chippewa	Indefinite
LaVonne Sletten		Chippewa	Indefinite
Dorothy Carlson		Lac qui Parle	Indefinite
Jan Boukol		Swift	Indefinite
LaVonne Schlieman		Swift	Indefinite
Connie Nygaard		Swift	Indefinite
Lori Hoffman		Yellow Medicine	Indefinite
Pam Smith		Yellow Medicine	Indefinite

Administrator

Elizabeth Auch			Indefinite
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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of Health
Countryside Public Health Service

We have audited the accompanying basic financial statements of the Countryside Public Health Service, Benson, Minnesota, as of and for the year ended December 31, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Health Service's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

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

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

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

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as a supporting schedule in the table of contents is presented for purposes of additional analysis and is not a required part of the Countryside Public Health Service's basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2005, on our consideration of the Countryside Public Health Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 9, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

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

The Countryside Public Health Service's Management's Discussion and Analysis (MD&A) provides an overview of the Health Service's financial activities for the fiscal year ended December 31, 2004. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the Health Service's financial statements.

The Health Service is a joint powers enterprise operation of Big Stone, Chippewa, Lac qui Parle, Swift, and Yellow Medicine Counties created to provide community health care for the residents of the five-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 the 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 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 Service.

FINANCIAL ANALYSIS

Net Assets

	2003	2004	Increase (Decrease)	Percent Change (%)
Assets				
Current and other assets	\$ 1,877,192	\$ 2,163,469	\$ 286,277	15.25
Capital assets	73,761	69,725	(4,036)	(5.47)
Total Assets	\$ 1,950,953	\$ 2,233,194	\$ 282,241	14.47
Liabilities				
Current liabilities	\$ 308,575	\$ 354,430	\$ 45,855	14.86
Noncurrent liabilities	117,463	133,032	15,569	13.25
Total Liabilities	\$ 426,038	\$ 487,462	\$ 61,424	14.42
Net Assets				
Invested in capital assets	\$ 73,761	\$ 69,725	\$ (4,036)	(5.47)
Unrestricted	1,451,154	1,676,007	224,853	15.49
Total Net Assets	\$ 1,524,915	\$ 1,745,732	\$ 220,817	14.48

The increase in total assets from 2003 to 2004 is due to an increase in investments in 2004. The Countryside Public Health Service tried to maximize its investments by investing in CDs with high interest rates. The interest was then added to the principal, which increased the value of the investments.

The increase in total liabilities from 2003 to 2004 is due to an increase in accounts payable and unearned revenue. The Countryside Public Health Service had purchased more towards the end of 2004; therefore, the accounts payable was increased due to the purchases not being paid until 2005. Unearned revenue increased due to an increase in fees from 2003 to 2004 for food and beverage licenses.

Changes in Net Assets

	2003	2004	Increase (Decrease)	Percent Change (%)
Operating Revenues				
Charges for services	\$ 535,601	\$ 553,011	\$ 17,410	3.25
Licenses and permits	74,627	81,958	7,331	9.82
School contracted services	41,507	51,541	10,034	24.17
Water testing	14,508	13,940	(568)	(3.92)
Immunization	49,521	33,330	(16,191)	(32.70)
Miscellaneous	2,210	3,062	852	38.55
Intergovernmental	1,342,743	1,219,691	(123,052)	(9.16)
Total Operating Revenues	\$ 2,060,717	\$ 1,956,533	\$ (104,184)	(5.06)
Nonoperating Revenues				
Interest income	21,982	27,254	5,272	23.98
Contributions and donations	502	740	238	47.41
Total Revenues	\$ 2,083,201	\$ 1,984,527	\$ (98,674)	(4.74)

	2003	2004	Increase (Decrease)	Percent Change (%)
Operating Expenses				
Administration	\$ -	\$ 19,613	\$ 19,613	100.00
Family health	265,893	222,903	(42,990)	(16.17)
Family planning	60,407	19,136	(41,271)	(68.32)
All Kids Count - Robert Wood Johnson	6,819	8,095	1,276	18.71
Disease prevention and control	154,554	152,450	(2,104)	(1.36)
Home care	340,865	333,804	(7,061)	(20.72)
Environmental health	150,669	148,375	(2,294)	(1.52)
Health promotion	196,281	218,515	22,234	11.33
Women, Infants, and Children program	227,017	227,326	309	0.14
Title III-F aging	9,717	10,917	1,200	12.35
Maternal and child health	93,883	129,327	35,444	37.75
Immunization	173,410	245,428	72,018	41.53
Breast and cervical cancer	11,273	-	(11,273)	(100.00)
Childhood lead poisoning prevention	18,794	2,113	(16,681)	(88.76)
Depreciation	24,202	25,708	1,506	6.22
Total Expenses	<u>\$ 1,733,784</u>	<u>\$ 1,763,710</u>	<u>\$ 29,926</u>	1.73
Change in Net Assets	<u>\$ 349,417</u>	<u>\$ 220,817</u>	<u>\$ (128,600)</u>	(36.80)

Total revenues decreased from 2003 to 2004 because the legislature in 2003 made cuts to the Minnesota Department of Health's Community Health Services grants to local public health agencies. The legislature changed the name of the grant to Local Public Health Grant. The legislature also made cuts in funding to the WIC program to local public health agencies. The Countryside Public Health Service also did not receive all grants applied for and, therefore, revenues were less for the Health Service. Some grants not received were Family Planning, ACMC Foundation, MBCCP, and Lead. Due to a staffing change in the Child & Teen Check-up Program, not all revenue that could be earned was accessed. Lastly, the county levy dollars given to Public Health decreased by ten percent for 2004. The county levy dollars in 2003 were \$428,000, and in 2004, the dollars were \$385,290.

Total expenses increased from 2003 to 2004 due to the services still provided, although the revenue decreased. For example, the Countryside Public Health Service continued the WIC program at the current staffing capacity while receiving less WIC grant dollars. Although the legislature lowered the dollars allotted in the Local Public Health Grant, the Health Service continued to follow our work plan activities for the current year. We also continued to believe in using County tax dollars to support our Lead program and minimal Family Planning activities. Therefore, with few staffing changes from 2003 to 2004, our expenses remained relatively the same with less funding. Also, expenses would increase when the Health Service adjusted salaries and insurance in 2004.

CAPITAL ASSETS ADMINISTRATION

Capital Assets (Net of Depreciation)

	<u>2003</u>	<u>2004</u>	<u>Increase (Decrease)</u>	<u>Percent Change (%)</u>
Machinery, furniture, and equipment	<u>\$ 73,761</u>	<u>\$ 69,725</u>	<u>\$ (4,036)</u>	(5.47)

The only major additions this year were the purchase of a 2004 beige Ford Taurus and a copier. Additional information on capital assets can be found in Note 2.A.3. of the financial statements.

FUTURE EVENTS

The Countryside Public Health Service looks forward to 2005. The Community Health Board and administration always assess the needs of our community citizens along with the grants, fees, and state and local dollars it will be receiving for the coming year. The Health Service will evaluate staffing patterns to handle the activities for the coming year. We will monitor the agency's financial status monthly and monitor activities planned for our community.

CONTACTING THE HEALTH SERVICE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, 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 questions about this report or need additional financial information, contact the Administrator, Elizabeth Auch, 201 - 13th Street South, Benson, Minnesota 56215.

BASIC FINANCIAL STATEMENTS

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**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

EXHIBIT 1

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

Assets

Current assets

Cash	\$ 77,530
Petty cash and change funds	400
Departmental cash	2,561
Investments	1,932,027
Accounts receivable	61,570
Accrued interest receivable	2,043
Due from other governments	87,338

Total current assets **\$ 2,163,469**

Capital assets

Equipment, vehicles, furniture, and equipment	\$ 149,846
Less: accumulated depreciation	(80,121)

Total capital assets **\$ 69,725**

Total Assets **\$ 2,233,194**

Liabilities

Current liabilities

Accounts payable	\$ 24,338
Salaries payable	619
Unearned revenue	285,129
Compensated absences - current	44,344

Total current liabilities **\$ 354,430**

Noncurrent liabilities

Compensated absences - long-term	133,032
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Total Liabilities **\$ 487,462**

Net Assets

Invested in capital assets	\$ 69,725
Unrestricted	1,676,007

Total Net Assets **\$ 1,745,732**

**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

EXHIBIT 2

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

Operating Revenues	
Charges for services	\$ 553,011
Licenses and permits	81,958
School contracted services	51,541
Water testing	13,940
Immunization	33,330
Miscellaneous	3,062
Intergovernmental	
State	
Local public health grant	263,405
Tobacco grants (TFCC)	8,900
Public Employees Retirement Association rate increase aid	9,339
Youth risk behavior	16,680
TB grant	848
Medica pilot project	13,584
Fetal alcohol syndrome	23,460
Federal	
Women, infants, and children program	210,646
State and community highway safety	17,719
Maternal and child health	81,722
Immunization grants	35,645
Follow along program	8,145
Health alert network	93,583
State indoor radon grant	2,715
TANF home visiting grant	27,992
Local	
Participating counties, PACT 4, Upper Sioux Medical Management Grant	405,308
	<hr/>
Total Operating Revenues	\$ 1,956,533
Operating Expenses	
Administration	\$ 19,613
Family health	222,903
Family planning	19,136
All Kids Count - Robert Wood Johnson	8,095
Disease prevention and control	152,450
Home care	333,804
Environmental health	148,375
Health promotion	218,515
Women, infants, and children program	227,326
Title III-F aging	10,917
Maternal and child health	129,327
Immunization	245,428
Childhood lead poisoning prevention	2,113
Depreciation	25,708
	<hr/>
Total Operating Expenses	\$ 1,763,710
Operating Income (Loss)	\$ 192,823

**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

**EXHIBIT 2
(Continued)**

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

Operating Revenues	
Nonoperating Revenues (Expenses)	
Interest income	\$ 27,254
Contributions and donations	740
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 27,994
	<hr/>
Change in Net Assets	\$ 220,817
	<hr/>
Net Assets - January 1	\$ 1,531,769
Prior period adjustment (see Note 1.H.3.)	(6,854)
	<hr/>
Net Assets - January 1, as restated	\$ 1,524,915
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Net Assets - December 31	\$ 1,745,732
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**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

EXHIBIT 3

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

Cash Flows from Operating Activities	
Receipts from customers	\$ 802,261
Payments to suppliers	(136,329)
Payments to employees	(1,601,673)
	<hr/>
Net cash provided by (used in) operating activities	\$ (935,741)
Cash Flows from Noncapital Financing Activities	
Operating grants received	\$ 1,194,631
Contributions and donations	740
	<hr/>
Net cash flows provided by (used in) noncapital financing activities	\$ 1,195,371
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	\$ (21,672)
	<hr/>
Cash Flows from Investing Activities	
Interest receipts	\$ 29,750
Certificates of deposit purchased	(309,475)
Certificates of deposit redeemed	601,091
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 559,324
Cash and Cash Equivalents at January 1	<u>1,143,719</u>
Cash and Cash Equivalents at December 31	<u>\$ 1,703,043</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ 192,823
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	\$ 25,708
Grants reported as operating revenues	(1,219,691)
Changes in assets and liabilities	
Accounts receivable	3,995
Accounts payable	10,988
Salaries payable	(54)
Due to other governments	(6,194)
Unearned revenue	35,925
Compensated absences - current	5,190
Compensated absences - long-term	15,569
	<hr/>
Total adjustments	\$ (1,128,564)
Net cash provided by (used in) operating activities	<u>\$ (935,741)</u>

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

Page 11

**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

EXHIBIT 3
(Continued)

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

Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets

Cash	\$ 77,530
Petty cash and change funds	400
Departmental cash	2,561
Investments (not including certificates of deposit of \$309,475)	<u>1,622,552</u>
Cash and Cash Equivalents	<u>\$ 1,703,043</u>

Noncash Capital Financing

In 2004, capital assets with a cost of \$129,709, and a related accumulated depreciation of \$122,855 were reduced because of a revision in the capital threshold to \$5,000. Also, \$5,687 of fully-depreciated capital assets were disposed of.

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**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

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

1. Summary of Significant Accounting Policies

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

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

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

A. Financial Reporting Entity

The Countryside Public Health Service was established July 1, 1979, by a joint powers agreement among Big Stone, Chippewa, Lac qui Parle, Swift, and Yellow Medicine Counties. The agreement was established to provide community health care for the residents of the five-county area. Each county's proportionate share of the total responsibility of the project is established on a per capita basis as determined by the most recent statistical estimates provided by the Minnesota Board of Health. The joint powers agreement stays in force until any single county gives the other parties one calendar year written notice of its termination, delivered to the County Auditors of the respective counties; the agreement continues in effect for one full calendar year after the other counties receive the notice of the intent of any other county to terminate. In

**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

the event of termination, any property acquired as a result of the agreement and any surplus monies on hand at that time shall be divided among the counties in the same proportion as their respective proportionate financial responsibilities.

Control is vested in the Countryside Public Health Service Board of Health. The Board consists of 11 members, two from each county, except for the largest county which has three members. One position was vacant during 2004. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

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

In accordance with generally accepted accounting principles, for financial reporting purposes, the Health Service's financial statements are not included in any member county's financial statements.

B. Basis of Presentation

The Countryside Public Health Service's accounts are organized as an enterprise fund. The operations are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. Enterprise funds 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.

C. Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting, in which revenues are recorded when earned and expenses are recorded when incurred, in accordance with generally accepted accounting principles. Following GASB Statement 20, the Health Service has elected to apply all applicable FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Data

The Countryside Public Health Service adopts an annual budget prepared on the accrual basis of accounting. This budget is approved by the Countryside Public Health Service Board.

E. Assets, Liabilities, and Net Assets

1. Assets

Deposits and Investments

Investments are stated at fair value and consist of certificates of deposit and a money market savings account. Interest is recorded when earned.

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents include cash on hand and all cash and investments with an original maturity of three months or less.

Capital Assets and Depreciation

Capital assets consist of vehicles and equipment and are recorded at cost. Depreciation is calculated on a straight-line basis over the following estimated useful lives of the assets:

<u>Asset</u>	<u>Years</u>
Machinery, vehicles, furniture, and equipment	3 to 15

2. Liabilities

Compensated Absences Payable

The balance sheet at December 31, 2004, includes a liability for vacation leave earned but not used by employees and sick leave that has vested or is expected to vest. Unvested sick leave, \$87,957 at December 31, 2004, is available to employees in the event of illness-related absences and is not paid to them at termination.

**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets

2. Liabilities

Compensated Absences Payable (Continued)

The Health Service's personnel policy provides that an employee may earn 12 to 20 days of vacation per year and one day of sick leave per month. Sick leave can be accumulated to a maximum of 120 days. Permanent full-time employees who retire with ten years or more of service will receive 50 percent of accumulated unused sick leave, to a maximum of 120 days.

Unearned Revenue

Unearned revenue consists of license fees or federal, state, and local grants received by the Health Service but not yet earned.

3. Net Assets

Invested in capital assets represents the accumulated value of the capital assets of the Countryside Public Health Service.

The unrestricted net assets account represents the accumulated earnings of the Countryside Public Health Service.

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.

**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

F. Revenues and Expenses

1. Revenues

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

Exchange Transactions

Charges for services are recorded as revenue when the service is provided. Investment income is recognized as revenue when earned.

Nonexchange Transactions

Government-mandated nonexchange 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 Service perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met, usually when the corresponding expenditure is incurred.

Voluntary nonexchange 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. Gifts and contributions from individuals are also considered voluntary nonexchange transactions and are generally recognized when received.

2. Expenses

Expenses, including compensated absences, are recognized when they are incurred.

**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

G. Operating and Nonoperating Revenues and Expenses

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

H. Restatement

1. Reclassification of Fund Equity to Net Assets

The Countryside Public Health Service Board of Health has implemented GASB Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. Implementation of this new standard required the Board to change the format and content of the financial statements. This change must be considered when comparing financial statements of this report with those of prior reports. Implementation of the new standard required the following restatement of fund equity to net assets:

Retained earnings, as previously reported - December 31, 2003	\$ 1,531,769
Net Assets - January 1, 2004	\$ 1,531,769

2. Capital Assets

The Countryside Public Health Service Board of Health changed the capitalization threshold for capital assets to \$5,000. The adjustment made to accumulated depreciation includes a reduction of \$122,855 for machinery, vehicles, furniture, and equipment depreciation. The effect of the new limit is summarized:

**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

1. Summary of Significant Accounting Policies

H. Restatement

2. Capital Assets (Continued)

	Beginning Balance	Change in Capital Assets Threshold	Beginning Balance (Restated)
Capital assets depreciated Machinery, vehicles, furniture, and equipment	\$ 263,570	\$ (129,709)	\$ 133,861
Less: accumulated depreciation for Machinery, furniture, and equipment	182,955	(122,855)	60,100
Total Capital Assets	\$ 80,615	\$ (6,854)	\$ 73,761

3. Net Assets

The restatement to capital assets required a restatement of net assets.

Net Assets - January 1, 2004 (Note 1.H.1.)	\$ 1,531,769
Less: restatement explained in Note 1.H.2. above Change in capital asset threshold	(6,854)
Net Assets - January 1, 2004, restated	\$ 1,524,915

2. Detailed Notes

A. Assets

1. Deposits and Investments

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Health Service to designate a depository for public funds and to invest in certificates of deposit. Minnesota statutes require that all Health Service deposits be covered by insurance, surety bond, or collateral.

At December 31, 2004, Health Service bank deposits were \$2,042,312. The carrying value of these deposits on the Health Service's books was \$2,009,557.

**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the December 31, 2004, insurance and collateral as it relates to the Health Service's custodial credit risk for its deposits.

	<u>Bank Balances</u>
Covered Deposits	
Insured, or collateralized with securities held by the Health Service or its agent in the Health Service's name	\$ 300,000
Collateralized with securities held by the pledging financial institution's trust department or agent in the Health Service's name	1,742,312
Uncollateralized	-
Total	\$ 2,042,312

Following is a summary of the carrying amounts of the Health Service's cash and investments at December 31, 2004.

Checking	\$ 77,530
Certificates of deposit	309,476
Money market savings	1,622,551
Total Cash and Investments	\$ 2,009,557

2. Due From Other Governments

	<u>2004</u>
Federal grants	\$ 77,999
State grants	9,339
Total	\$ 87,338

The Countryside Public Health Service did not have any amounts due from other governments scheduled to be collected beyond one year.

**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

2. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital assets consist of vehicles and equipment with estimated useful lives of 3 to 15 years. Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance (Restated)	Increase	Decrease	Ending Balance
Capital assets depreciated				
Machinery, vehicles, furniture, and equipment	\$ 133,861	\$ 21,672	\$ 5,687	\$ 149,846
Less: accumulated depreciation for				
Machinery, vehicles, furniture, and equipment	60,100	25,708	5,687	80,121
Capital Assets, Net	\$ 73,761	\$ (4,036)	\$ -	\$ 69,725

B. Liabilities

1. Unearned Revenue

Unearned revenue consists of license fees and federal, state, or local grants received but not yet earned. Unearned revenue at December 31, 2004, was:

Food and beverage licenses	\$ 56,945
Grants for	
Immunization registry	195,829
Bioterrorism	9,402
Fetal alcohol syndrome	16,704
Medica pilot project	6,249
Total Deferred Revenue	\$ 285,129

**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

2. Detailed Notes

B. Liabilities (Continued)

2. Long-Term Liabilities

A summary of the changes in compensated absences follows.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 156,617	\$ 20,759	\$ -	\$ 177,376	\$ 44,344

3. Pension Plans

A. Plan Description

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

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

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

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

**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

3. Pension Plans

A. Plan Description (Continued)

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

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

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

B. Funding Policy

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

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

The Health Service's contributions for the years ending December 31, 2004, 2003, and 2002, were \$56,273, \$57,991, and \$59,244, respectively, equal to the contractually required contributions for each year as set by state statute.

**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

4. Risk Management

The Countryside Public Health Service is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; workers' compensation claims; and natural disasters. To cover its liabilities for workers' compensation and property and casualty, the Health Service is a member of the Minnesota Counties Insurance Trust (MCIT), a public entity risk pool currently operated as a common risk management and insurance program for its members. The Health Service retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the basic financial statements. For other risk, the Health Service purchases commercial insurance. There were no reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

The Workers' Compensation Division of the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the Health Service in a method and amount to be determined by the MCIT.

The Health Service pays an annual premium based on its annual payroll and an experience modification factor for workers' compensation coverage.

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

5. Claims and Litigation

The Countryside Public Health Service, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Health Service's attorney estimates that the potential claims against the Health Service not covered by insurance resulting from such litigation would not materially affect the financial statements of the Health Service.

SUPPORTING SCHEDULE

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COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA

Schedule 1

SCHEDULE OF DEPOSITS
DECEMBER 31, 2004

	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Cost</u>
Checking accounts			
First Federal Savings Bank - Benson	0.15	-	\$ 77,530
Money market savings			
First Security Bank - Benson	2.15	-	1,622,551
Certificates of deposit			
Bank of the West - Benson	3.15	February 26, 2005	<u>309,476</u>
Total Deposits			<u><u>\$ 2,009,557</u></u>

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**COUNTRYSIDE PUBLIC HEALTH SERVICE
BENSON, MINNESOTA**

Schedule 2

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

01-1 **Segregation of Duties**

Due to the limited number of office personnel within the Countryside Public Health Service, segregation of duties of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the Health Service; however, 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.

We recommend that management be aware of the lack of segregation of duties within the accounting functions and, if possible, implement oversight procedures to ensure that internal control policies and procedures are being followed.

Client's Response:

Countryside Public Health Administration and Community Health Board recognize our agency has a limited number of employees to segregate all accounting duties. Therefore, Countryside Public Health Administration is diligent in following policies and procedures to ensure adequate internal accounting control. Management will continue to always watch the accounting procedures being implemented and implement new ways to provide oversight if needed.

**II. FOLLOW UP ON PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR
FEDERAL AWARD PROGRAMS**

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

98-1A Lack of Segregation of Duties Over Voucher Issuance - Supplemental Food Program
for Women, Infants, and Children (WIC) (CFDA #10.557)

In prior years, we noted a general lack of segregation of duties over the voucher issuance process. The condition remains unchanged for the current year. Both clerical and nursing staff have the same level of access to all computer screens necessary to create a file, authorize WIC voucher issuance, and print/issue vouchers. Given this condition, the current level of password security is not adequate to detect errors or irregularities.

We recommend that management establish procedures to adequately segregate the various duties surrounding the WIC voucher issuance process.

Client's Response:

Countryside Public Health appreciates the Auditor's concern regarding the WIC grant and segregation of duties over the voucher issuance process. Countryside Public Health does have a WIC Coordinator on staff to provide oversight and management of the WIC Program. Countryside Public Health is a rural agency maximizing staff capacity along with providing quality WIC services to our families. Countryside Public Health will continue to be in contact with State WIC staff to establish procedures to segregate duties as allowed by Countryside Public Health staffing needs.

III. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Deposits in Excess of Coverage (01-2)

The Health Service's deposits exceeded the amount of insurance and collateral pledged. We recommended that the Health Service obtain adequate levels of collateral from its designated depositories.

Resolution

During 2004, the Health Service obtained adequate levels of collateral from its designated depositories.

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PATRICIA ANDERSON
STATE AUDITOR

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Health
Countryside Public Health Service

We have audited the basic financial statements of the Countryside Public Health Service as of and for the year ended December 31, 2004, and have issued our report thereon dated November 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Countryside Public Health Service's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Health Service's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 01-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the

financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Countryside Public Health Service's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except public indebtedness, which was excluded because the Countryside Public Health Service has not issued long-term debt.

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

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 9, 2005