

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

COTTONWOOD-JACKSON
COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA

YEARS ENDED DECEMBER 31, 2009 AND 2010

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, 2009 and 2010



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

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

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

ORGANIZATION
2010

Office	Name
Board of Health	
Cottonwood County Commissioners	
1st District	Gary Sorenson
2nd District	Ron Kuecker
3rd District	Tom White
4th District	Norman Holman ¹
5th District	John Oeltjenbruns
Jackson County Commissioners	
1st District	William Tusa
2nd District	Loren Tusa ²
3rd District	Rosemary Schultz
4th District	Roger Ringkob
5th District	David Henkels
Nursing Director/Administrator	Patricia Stewart

¹Chair 2009

²Chair 2010

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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, 2009 and 2010, 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 and the report of the other auditors provide a reasonable basis for our opinions.

As discussed in Note 1.E.2. to the financial statements, Cottonwood-Jackson Community Health Services has not reported a liability for its other postemployment benefits (OPEB) and, accordingly, has not reported an expense for the current period change in the net OPEB obligation. Accounting principles generally accepted in the United States of America require that OPEB obligations, which arise from an exchange of salaries and benefits for employee service and are part of the compensation that employers offer for services received, and the annual OPEB cost be accrued as liabilities and expenses as the employees earn the right to the benefits. Accruing OPEB costs would increase liabilities, reduce net assets, and change the expenses. The amount by which this departure would affect the Health Services' liabilities, net assets, and expenses is not reasonably determinable.

In our opinion, except for the effects of not reporting a liability and related expense for OPEB as described above, 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, 2009 and 2010, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the basic financial statements. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 29, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009 AND 2010
(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, 2009 and 2010. 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			Percent Change (%) 2009 to 2010	Increase (Decrease) 2009 to 2010
	2008	2009	2010		
Assets					
Current and other assets	\$ 299,696	\$ 288,348	\$ 291,609	1	\$ 3,261
Capital assets	44,399	38,443	32,486	(15)	(5,957)
Total Assets	\$ 344,095	\$ 326,791	\$ 324,095	(0.8)	\$ (2,696)
Liabilities					
Current liabilities	\$ 116,691	\$ 122,978	\$ 138,592	13	\$ 15,614
Noncurrent liabilities	85,944	70,707	89,546	27	18,839
Total Liabilities	\$ 202,635	\$ 193,685	\$ 228,138	18	\$ 34,453
Net Assets					
Invested in capital assets	\$ 44,399	\$ 38,443	\$ 32,486	(15)	\$ (5,957)
Restricted	60,253	61,289	61,108	(0.3)	(181)
Unrestricted	36,808	33,374	2,363	(93)	(31,011)
Total Net Assets	\$ 141,460	\$ 133,106	\$ 95,957	(28)	\$ (37,149)

Current and other assets remained steady for 2009 and 2010. The 15 percent decrease in capital assets reflects the depreciation of the four vehicles owned by Cottonwood-Jackson CHS.

The total liabilities increased in both from 2009 and 2010 due to a significant increase in accounts payable. This was due to Cottonwood-Jackson CHS holding the last batch of December warrants until January of the following year, for both 2009 and 2010. It should be noted that salaries payable decreased from the 2008 levels as the 2008 salaries payable amounted to two weeks and three days. However, salaries earned in 2009 but paid in 2010 amounted to four days, and salaries earned in 2010 but paid in 2011 amounted to five days.

Current compensated absences and long-term compensated absences showed a slight increase from 2008 to 2010. Cottonwood-Jackson Community Health Services has a number of employees accruing vacation and sick leave at the maximum rate and thus the reason for the increase in short- and 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 2010, the Health Services awarded one \$1,000 college scholarship from the Restricted Net Assets account. Because of the investment strategies, the Restricted Net Assets had nearly returned to 2009 levels by the end of 2010.

Changes in Revenues, Expenses, and Net Assets

	2008	2009	2010	Percent Change (%) 2009 to 2010	Increase (Decrease) 2009 to 2010
Operating Revenues					
Charges for services	\$ 702,661	\$ 573,318	\$ 710,613	24	\$ 137,295
Miscellaneous	11,672	30,388	40,446	33	10,058
Total Operating Revenues	\$ 714,333	\$ 603,706	\$ 751,059	24	\$ 147,353
Nonoperating Revenues					
Intergovernmental	870,147	1,149,272	1,282,788	12	133,516
Interest and donations	5,055	3,658	2,173	(41)	(1,485)
Total Revenues	\$ 1,589,535	\$ 1,756,636	\$ 2,036,020	16	\$ 279,384
Operating Expenses					
Professional services	\$ 1,574,269	\$ 1,612,588	\$ 1,947,032	21	\$ 334,444
Administration	88,753	146,446	120,180	(18)	(26,266)
Depreciation	5,956	5,956	5,957	-	1
Total Expenses	\$ 1,668,978	\$ 1,764,990	\$ 2,073,169	17	\$ 308,179
Change in Net Assets	\$ (79,443)	\$ (8,354)	\$ (37,149)	(345)	\$ (28,795)

Total revenues increased from 2009 to 2010. Cottonwood-Jackson Community Health Services saw a 24 percent increase in charges for services and a 33 percent increase in miscellaneous revenues. The increase in charges for services can be attributed to increased patients in the medical assistance, waived programs, and veteran's administration pay sources. All other pay sources remained steady. The increase in miscellaneous revenues is due in large part to an increase of \$8,415 from MCIT for the annual dividend. The intergovernmental nonoperating revenue increase is due to the addition of the SHIP Grant. Interest and donations are down in 2010 because the semi-annual Capper's Readers drive completed in 2009. This drive nets about \$1,500 for the agency.

The increase in operating expenses is due largely to the addition of the SHIP Grant and expenditures associated with SHIP. Increased Home Care clients resulted in additional Home Health Aide hours and medical supplies to care for those clients.

CAPITAL ASSETS ADMINISTRATION

Capital Assets (Net of Depreciation)

	2008	2009	2010	Percent Change (%) 2009 to 2010	Increase (Decrease) 2009 to 2010
Capital assets	<u>\$ 44,399</u>	<u>\$ 38,443</u>	<u>\$ 32,486</u>	(15)	<u>\$ (5,957)</u>

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. 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 are continually assessing the needs of Cottonwood and Jackson Counties' citizens and the fees, grants, and state and local dollars the Health Services 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, 2009 AND 2010**

	2009	2010
<u>Assets</u>		
Current assets		
Cash and pooled investments	\$ 68,779	\$ 48,574
Petty cash and change funds	60	60
Accounts receivable - net	83,391	131,073
Due from other governments	74,829	50,794
	\$ 227,059	\$ 230,501
Restricted assets		
Cash and pooled investments	60,583	60,562
Accrued interest receivable	706	546
	\$ 61,289	\$ 61,108
Noncurrent assets		
Capital assets		
Depreciable - net	38,443	32,486
	\$ 326,791	\$ 324,095
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 67,093	\$ 74,601
Salaries payable	17,812	23,003
Compensated absences payable - current	38,073	40,988
	\$ 122,978	\$ 138,592
Noncurrent liabilities		
Compensated absences payable - long-term	70,707	89,546
	\$ 193,685	\$ 228,138
<u>Net Assets</u>		
Invested in capital assets	\$ 38,443	\$ 32,486
Restricted for		
Endowments - expendable	15,789	15,608
Endowments - nonexpendable	45,500	45,500
Unrestricted	33,374	2,363
	\$ 133,106	\$ 95,957

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

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

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010**

	2009	2010
Operating Revenues		
Charges for services	\$ 573,318	\$ 710,613
Miscellaneous	30,388	40,446
Total Operating Revenues	\$ 603,706	\$ 751,059
Operating Expenses		
Administration	\$ 146,446	\$ 120,180
Healthy communities	609,295	1,009,867
Infectious disease	46,180	38,627
Disaster preparation	89,702	91,824
Health services	867,411	806,714
Depreciation	5,956	5,957
Total Operating Expenses	\$ 1,764,990	\$ 2,073,169
Operating Income (Loss)	\$ (1,161,284)	\$ (1,322,110)
Nonoperating Revenues (Expenses)		
Intergovernmental		
Shared Revenues	\$ 4,326	\$ 4,326
State		
Department of Public Health	544,963	619,417
Department of Human Services	26,837	27,122
Federal		
Women, Infants, and Children (WIC)	108,571	118,436
Medical Reserve Corps Small Grant Program	10,000	5,000
Public Health Emergency Preparedness	50,430	101,785
Immunization Grants	3,700	-
Centers for Disease Control and Prevention	36,000	21,000
Temporary Assistance for Needy Families (TANF)	39,611	39,610
Medical Assistance Program	26,838	27,123
Maternal and Child Health (MCH)	33,926	34,578
Local		
County appropriations	259,738	259,738
Other	4,332	24,653
Interest income	1,605	1,547
Gifts and contributions	2,053	626
Total Nonoperating Revenues (Expenses)	\$ 1,152,930	\$ 1,284,961
Increase (Decrease) in Net Assets	\$ (8,354)	\$ (37,149)
Net Assets - January 1	141,460	133,106
Net Assets - December 31	\$ 133,106	\$ 95,957

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

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

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010
Increase (Decrease) in Cash and Cash Equivalents**

	2009	2010
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 617,744	\$ 723,092
Payments to suppliers	(371,639)	(563,028)
Payments to employees	(1,396,345)	(1,469,881)
Net cash provided by (used in) operating activities	\$ (1,150,240)	\$ (1,309,817)
Cash Flows from Noncapital Financing Activities		
Intergovernmental	\$ 869,389	\$ 1,002,717
County appropriations	259,738	259,738
Other local grants	4,332	24,803
Contributions	2,053	626
Net cash provided by (used in) noncapital financing activities	\$ 1,135,512	\$ 1,287,884
Cash Flows from Investing Activities		
Investment earnings received	\$ 1,866	\$ 1,707
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (12,862)	\$ (20,226)
Cash and Cash Equivalents at January 1	142,284	129,422
Cash and Cash Equivalents at December 31	\$ 129,422	\$ 109,196
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating Income (Loss)	\$ (1,161,284)	\$ (1,322,260)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	\$ 5,956	\$ 5,957
(Increase) decrease in accounts receivable	18,598	(47,682)
(Increase) decrease in due from other governments	(4,560)	19,715
Increase (decrease) in accounts payable	45,886	7,508
Increase (decrease) in salaries payable	(39,059)	5,191
Increase (decrease) in compensated absences payable	(15,777)	21,754
Total adjustments	\$ 11,044	\$ 12,443
Net Cash Provided by (Used in) Operating Activities	\$ (1,150,240)	\$ (1,309,817)

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

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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, 2009 AND 2010**

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, 2009 and 2010. 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 reviewed by the Cottonwood-Jackson Community Health Services Board of Health and approved by both the Cottonwood County and Jackson County Boards of Commissioners.

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, 2009 and 2010 is:

	2009	2010
Gross accounts receivable	\$ 143,456	\$ 163,331
Less: allowance for uncollectibles	(60,065)	(32,258)
Net Accounts Receivable	\$ 83,391	\$ 131,073

**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.

Other Postemployment Benefits

The Health Services has not calculated its other postemployment benefits (OPEB) obligation in order to report the liability on the statement of net assets. Therefore, the change in the net OPEB obligation has not been reported in the statement of revenues, expenses, and changes in net assets. These are departures from generally accepted accounting principles.

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

1. Summary of Significant Accounting Policies

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

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.

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 Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

Intergovernmental

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

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

1. Summary of Significant Accounting Policies

F. Revenues and Expenses

1. Revenues (Continued)

Exchange Transactions

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. Other gifts and contributions from individuals are also considered voluntary nonexchange transactions and are generally recognized when received.

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

2. Expenses

Expenses, including compensated absences, are recognized when incurred.

2. Stewardship, Compliance, and Accountability

Budget

Following is a summary of the budgeted and actual amounts for the years ended December 31, 2009 and 2010:

	2009		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues	\$ 807,184	\$ 603,706	\$ (203,478)
Operating Expenses	1,757,165	1,764,990	(7,825)
Operating Income (Loss)	\$ (949,981)	\$ (1,161,284)	\$ (211,303)
Nonoperating Revenues (Expenses)	907,477	1,152,930	245,453
Net Income (Loss)	\$ (42,504)	\$ (8,354)	\$ 34,150

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

2. Stewardship, Compliance, and Accountability

Budget (Continued)

	2010		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues	\$ 749,795	\$ 751,059	\$ 1,264
Operating Expenses	1,998,483	2,073,169	(74,686)
Operating Income (Loss)	\$ (1,248,688)	\$ (1,322,110)	\$ (73,422)
Nonoperating Revenues (Expenses)	1,248,688	1,284,961	36,273
Net Income (Loss)	\$ -	\$ (37,149)	\$ (37,149)

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:

	2009	2010
Petty cash and change funds	\$ 60	\$ 60
Savings and checking	76,458	51,506
Certificates of deposit	45,500	45,500
Cash with fiscal agent	7,404	12,130
Total Deposits and Investments	\$ 129,422	\$ 109,196

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

3. Detailed Notes

A. Assets

Deposits and Investments (Continued)

The following table presents the County's cash and deposit balances at December 31, 2009 and 2010:

	<u>2009</u>	<u>2010</u>
Cash and cash equivalents	\$ 68,779	\$ 48,574
Petty cash and change funds	60	60
Restricted cash	<u>60,583</u>	<u>60,562</u>
Total Cash	<u>\$ 129,422</u>	<u>\$ 109,196</u>

1. Deposits

Cottonwood-Jackson Community Health Services is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The Health Services is required by Minn. Stat. § 118A.03 to protect deposits with 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 and 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, 2009 and 2010, the Health Services' deposits were not exposed to custodial credit risk.

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

3. Detailed Notes

A. Assets

Deposits and Investments (Continued)

2. Investments

The Health Services may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (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, 2009 and 2010, Cottonwood-Jackson Community Health Services had no investments.

Receivables

The Health Services did not have any receivables scheduled to be collected beyond one year.

**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, 2009 and 2010:

	2009	2010
Gross due from other governments	\$ 107,038	\$ 51,549
Less allowance for uncollectibles	(32,209)	(755)
Net due from other governments	\$ 74,829	\$ 50,794

Capital Assets

A summary of capital assets at December 31, 2009 and 2010 follows:

	Balance January 1, 2009	Additions	Deletions	Balance December 31, 2009
Equipment	\$ 59,563	\$ -	\$ -	\$ 59,563
Less: accumulated depreciation	(15,164)	(5,956)	-	(21,120)
Total	\$ 44,399	\$ (5,956)	\$ -	\$ 38,443

	Balance January 1, 2010	Additions	Deletions	Balance December 31, 2010
Equipment	\$ 59,563	\$ -	\$ -	\$ 59,563
Less: accumulated depreciation	(21,120)	(5,957)	-	(27,077)
Total	\$ 38,443	\$ (5,957)	\$ -	\$ 32,486

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

3. Detailed Notes (Continued)

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.

Compensated Absences

The net changes in compensated absences for the years ended December 31, 2009 and 2010 are:

	<u>2009</u>	<u>2010</u>
Compensated absences - January 1	\$ 124,557	\$ 108,780
Net changes	<u>(15,777)</u>	<u>21,754</u>
Compensated absences - December 31	<u>\$ 108,780</u>	<u>\$ 130,534</u>
Estimated payable within a year	<u>\$ 38,073</u>	<u>\$ 40,988</u>

4. Pension Plans

A. 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 General Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

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

4. Pension Plans

A. Plan Description (Continued)

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

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

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

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

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.

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

4. Pension Plans

A. Plan Description (Continued)

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. Cottonwood-Jackson Community Health Services makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent for 2009 and 2010, respectively, of their annual covered salary.

Cottonwood-Jackson Community Health Services is required to contribute the following percentages of annual covered payroll in 2009 and 2010:

	2009	2010
General Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.75	7.00

Cottonwood-Jackson Community Health Services' contributions for the years ending December 31, 2008, 2009, and 2010, for the General Employees Retirement Fund were:

	2008	2009	2010
General Employees Retirement Fund	\$ 60,650	\$ 70,694	\$ 76,471

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

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

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.

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 for which the Health Services carries commercial insurance. The Health Services has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The Health Services is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For all other risk, the Health Services carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$430,000 per claim in 2009 and \$450,000 in 2010 and 2011. 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.

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

5. Summary of Significant Contingencies and Other Items

B. Risk Management (Continued)

The Southwest/West Central Service Cooperative is a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses; however, a particular member may receive increases or decreases depending on a good or bad year of claims experience. Premiums are determined annually by the Service Cooperative and are based partially on the experience of the Health Services and partially on the experience of the group. The Service Cooperative solicits proposals from carriers and negotiates the contracts.

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.

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 2009 and 2010, Cottonwood-Jackson Community 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 2009, the Health Services paid \$500 to the Collaborative and, during 2010, the Health Services paid \$500 to the Collaborative.

The Minnesota Counties Computer Cooperative provides computer programming services for Cottonwood-Jackson Community Health Services. During 2009 and 2010, 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, 2009 AND 2010**

FINDINGS AND RECOMMENDATIONS

A. INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Segregation of Duties

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

The Health Services has one employee who is responsible for the collection of funds, preparation and recording of receipts, and preparation of bank deposits and bank reconciliations. There are no compensating controls or monitoring activities documented or being performed to ensure accurate reporting.

One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction.

We recommend that the Health Services' management segregate duties within the accounting functions as much as possible by limiting access to accounting programs commensurate to the employees' duties and job responsibilities. If it is not possible to segregate duties, management should be aware of the lack of segregation of duties and implement oversight procedures to ensure the integrity and reliability of the financial information in the accounting system.

Client's Response:

The Cottonwood-Jackson Board of Health is aware that it is desirable to segregate duties in the accounting department of Cottonwood-Jackson Community Health Services. However, due to the size of the agency, it is not possible nor is it economically feasible to separate the accounting department to the desirable level of control. The Cottonwood-Jackson Board of Health and Co-Jak CHS are aware of this lack of segregation of duties and continue to monitor the financial status of the agency.

08-1 Audit Adjustment

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

During our audit, we proposed adjustments that resulted in significant changes to the Health Services' financial statements. The adjustments resulted from errors made in recording transactions and Health Services' staff needing continued guidance on accounting principles and oversight to provide accurate and reliable information. Controls over calculating the proper amounts of assets and liabilities did not detect a number of errors, which resulted in the Health Services' records understating revenue and expenses and overstating assets and net assets. 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 review internal controls currently in place, then design and implement procedures to improve internal control over financial reporting to detect misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements. In addition, we recommend the Health Services include a final review process to trace items on the financial statements back to the supporting detail to detect errors, including mapping issues and other necessary adjustments that can be corrected by the Health Services prior to the audit.

Client's Response:

Cottonwood-Jackson CHS Administration agrees with the findings of the audit. Cottonwood-Jackson CHS Fiscal Officer has worked and continues to work to insure that the identification of Accounts Receivables of more than 60 days past due is done in a timely matter. Procedures which began in 2011 will aid in the tracking and identification of uncollectible accounts.

Community Health Services Administration will review internal controls currently in place to detect misstatements in the financial statements. Cottonwood-Jackson Community Health Services would also require guidance from the State Auditor's Office as to what controls the State Auditor's Office deems would be necessary to correct this finding. After the review of current and recommended controls, Health Services will update the internal controls so the ability to identify potential misstatements is done in a timely manner.

ITEMS ARISING THIS YEAR

10-1 Preparation of Financial Statements

The Health Services is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the Health Services' management. Financial statement preparation in accordance with GAAP requires internal control over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate financial statements, including the related notes to the financial statements.

The Health Services has established controls and procedures for recording, processing, and summarizing its accounting data used in the preparation of its financial statements.

As is the case with many small and medium-sized entities, the Health Services has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the Health Services' ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the Health Services' internal control. As a result of this condition, the Health Services lacks internal controls over the preparation of financial statements in accordance with GAAP.

We recommend Cottonwood-Jackson Community Health Services obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If the Health Services still intends to have staff from the Office of the State Auditor assist in preparation then, at a minimum, it must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the Health Services' financial statements, including notes.

Client's Response:

Due to the size of Cottonwood-Jackson Community Health Services and the current work load of the accounting department, the agency will continue to rely on independent external auditors to assist with the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Cottonwood-Jackson Board of Health acknowledges that as a result of this condition, the Health Services lacks the internal controls over the preparation of financial statements in accordance with GAAP. Cottonwood-Jackson Community Health Services does employ individuals with the expertise to review, understand, and approve the Health Service's financial statements and notes.

10-2 General Ledger

Cottonwood-Jackson Community Health Services does not maintain a complete general ledger. A general ledger is the main accounting record of an entity which includes debits and credits, a double-entry system, for each transaction. The Health Services uses Excel spreadsheets to record receipts and cash balances and the Integrated Financial System Account Activity Report is used to account for disbursements.

Accounting and reporting controls are more efficient and effective when all transactions are accounted for in one centralized general ledger. The Health Services' Board and management are better able to implement and maintain internal controls over one central computerized system than several decentralized systems. Management and employees should have access to assets or records based on the requirements of their positions. A centralized general ledger generally provides more uniformity and consistency in accounting for financial transactions. In addition, it allows management to have access to financial information for the entire Health Services as needed to manage and monitor its financial operations.

We recommend that the Health Services' Board provide the necessary directives to management to complete the process of consolidating all transactions into one general ledger system. This would improve efficiencies in maintaining the Health Services' financial records and preparing required reports.

Client's Response:

Cottonwood-Jackson Community Health Services does maintain an Excel spreadsheet called "General Ledger" which includes summary level data. The "General Ledger" is used by the Health Services to combine the receipts and expenditures from the Integrated Financial System (IFS), Community Health Administrative Management Program (CHAMP) and the Cash Receipts/Accounts Receivable Ledger. Due to limited personnel and time constraints, Cottonwood-Jackson Community Health Services is not able to maintain a double-entry general ledger.

10-3 Other Postemployment Benefits (OPEB)

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for Cottonwood-Jackson Community Health Services for the year ended December 31, 2009, 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 OPEB 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.

For 2009 and 2010, Cottonwood-Jackson Community Health Services has not reported its OPEB liability in the governmental activities and, accordingly, has not reported the change to the net OPEB obligation. Accounting principles generally accepted in the United States of America require that OPEB obligations and the annual OPEB cost be accrued as liabilities and expenses as the employees earn the right to the benefits. Accruing OPEB costs would increase liabilities, reduce net assets, and change the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net assets, and expenses of the governmental activities is not reasonably determinable. However, it is likely that the liabilities are understated, and we have accordingly qualified our opinion on the Health Services' financial statements.

We recommend the Health Services' comply with the requirements of GASB Statement 45. Some of the issues the Health Services' Board needs to address in order to comply with this statement 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 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.

Client's Response:

The Cottonwood-Jackson Board of Health acknowledges that they are aware that the audit for CY2009 and CY2010 will have a qualified opinion due to the entity not complying with Governmental Accounting Standards Board (GASB) Statements Nos. 43 and 45 related to the measurement and reporting of a liability relating to other post-employment benefits (OPEB). The Board also acknowledges that any future years in which we fail to comply with those standards will result in a qualified opinion.

Additionally, at the December 1, 2011, Cottonwood-Jackson Board of Health meeting, the Board directed Health Services administration to secure the costs of hiring an actuary to determine if the employees are provided an OPEB and the costs and liabilities that need to be recognized in conjunction with an OPEB. When the costs of hiring of an actuary are provided to the Board, the Board will determine if the hiring of an actuary and how it will fund the OPEB are economically feasible for Cottonwood-Jackson Community Health Services.

B. 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 Community Health Services will continue to work with Jackson County to complete and approve a disaster recovery plan. It should be noted that on January 1, 2012, the Health Services will be changing their clinical and accounts receivable software from CHAMP to Nightingale Notes. Nightingale Notes is web-based software that provides off sight backups. This would insure that should a disaster disable the computer systems in Jackson County, the clinical and accounts receivable data stored in Nightingale Notes would be accessible by the Health Services.

ITEM ARISING THIS YEAR

10-4 Approval of Time Sheets

During our audit, we noted three time sheets with no employee signature and six timesheets with no supervisor signature. Approval of time sheets is an important internal control which helps to ensure that the time worked is reported accurately and reliably.

We recommend that each time sheet contain two attestations of the hours worked. One attestation should be by the employee, and the other should be by the employee's supervisor or other appropriate person.

Client's Response:

Cottonwood-Jackson CHS Administration agrees with the findings of the audit. Procedures have been put in place that all time sheets must be signed and dated by the employee before they are processed. Only original time sheets will be accepted for payroll processing. Once received, the original time sheets are reviewed and approved by the Health Services administrator.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Health
Cottonwood-Jackson Community Health Services

We have audited the financial statements of Cottonwood-Jackson Community Health Services as of and for the years ended December 31, 2009 and 2010, and have issued our report thereon dated December 29, 2011. Our report on the financial statements was qualified because the Health Services has not reported its other postemployment benefits (OPEB) obligation in the Statement of Net Assets or the changes in the liability in the Statement of Revenues, Expenses, and Changes in Net Assets as required by generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

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, 2009 and 2010, 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 opinion 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Health Services' financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies listed in the Schedule of Findings and Recommendations as items 99-1 and 08-1 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in the Health Services' internal control over financial reporting, identified as items 10-1 through 10-3 in the Schedule of Findings and Recommendations, to be significant deficiencies.

Minnesota Legal Compliance

We have audited the financial statements of Cottonwood-Jackson Community Health Services as of and for the years ended December 31, 2009 and 2010, 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 Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

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 are management practices comments. We believe these items to be of benefit to the Health Services, and we are reporting them for that purpose.

Cottonwood-Jackson Community Health Services' written responses to the internal control and management practice findings 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

December 29, 2011

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR