

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

**FOR THE YEAR ENDED DECEMBER 31, 2011**

## **Description of the Office of the State Auditor**

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

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

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

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

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

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

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

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

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

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

**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

**For the Year Ended December 31, 2011**



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

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**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

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**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

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**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2011

Representing

Board

Marv Bodie, Chair  
Barbara Little, Vice Chair  
Janice Hall  
Diane Pearson  
Brad Alm  
Thomas Clifford, M.D.  
Chris Dahlberg, Secretary  
Mike Forsman  
Steve O'Neil

Carlton County  
Carlton County  
Cook County  
Cook County  
Lake County  
Lake County  
St. Louis County  
St. Louis County  
St. Louis County

Director

Julie Myhre

Medical Consultant

Harold B. Leppink, M.D.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Carlton, Cook, Lake, and St. Louis  
Community Health Board

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Carlton, Cook, Lake, and St. Louis Community Health Board as of and for the year ended December 31, 2011, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the General Fund of the Carlton, Cook, Lake, and St. Louis Community Health Board as of December 31, 2011, and the changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D.7. to the financial statements, during the year ended December 31, 2011, the Board adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Carlton, Cook, Lake, and St. Louis Community Health Board's basic financial statements as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented 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 September 24, 2012, on our consideration of the Carlton, Cook, Lake, and St. Louis Community Health Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 24, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

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

Our Management's Discussion and Analysis (MD&A) of the Carlton, Cook, Lake, and St. Louis Community Health Board's financial performance provides an overview of the financial activities for the fiscal year ended December 31, 2011. Please read it in conjunction with the accompanying basic financial statements.

**FINANCIAL HIGHLIGHTS**

- The total net assets of the Board increased by \$42,541 (21 percent).
- The Board's General Fund reported an ending fund balance of \$23,314, a decrease of \$55,454. Unrestricted fund balance (available spendable resources) account for \$19,556 of the fund balance (84 percent).
- The General Fund reported an excess of expenditures over revenues of \$55,454.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the Board's basic financial statements. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial data and the fund financial data are reported in the same financial statements. This report contains other supporting schedules in addition to the basic financial statements.

**Government-Wide Financial Statements**

The Statement of Net Assets and the Statement of Activities report information about the Board as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Board's net assets and changes to them. Net assets--the difference between assets and liabilities--are one way to measure the Board's financial health, or financial position. Over time, increases or decreases in the Board's net assets are one indicator of whether its financial health is improving or deteriorating. The government-wide financial statements can be found on Exhibits 1 and 2.

### **Fund Financial Statements**

Fund financial statements provide detailed information about the General Fund--not the Board as a whole. The Board's General Fund is considered a governmental fund.

All of the Board's services are reported in the General Fund, which focuses on how money flows in and out of the fund and any balance left at year-end available for spending. This fund is reported using the modified accrual method of accounting, which measures cash and all other financial assets that can be readily converted to cash. The General Fund statements provide a detailed short-term view of the Board's operations and the basic services it provides. General Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance Board programs. The General Fund financial statements can be found on Exhibits 3 through 7 of this report.

### **Notes to the Financial Statements**

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 through 28.

### **Supporting Schedules**

A Schedule of Intergovernmental Revenue is included as Exhibit A-1.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may, over time, be a useful indicator of a government's financial position. In the case of the Carlton, Cook, Lake, and St. Louis Community Health Board, assets exceeded liabilities by \$248,073.

All of the Board's net assets are unrestricted. The Board does not have any individual capital assets costing more than \$5,000, which is the threshold the Board has set for defining capital assets.

The following analysis focuses on the Board's net assets (Table 1).

**Table 1**  
**Net Assets**

	Governmental Activities	
	2011	2010
Current and other assets	\$ 1,188,582	\$ 2,411,822
Other liabilities	\$ 915,329	\$ 2,183,242
Long-term liabilities outstanding	25,180	23,048
Total Liabilities	\$ 940,509	\$ 2,206,290
Net Assets		
Unrestricted	\$ 248,073	\$ 205,532

### Governmental Activities

The Board's net assets increased by \$42,541 (21 percent), from \$205,532 up to \$248,073.

Out of the \$1,188,582 in current and other assets, cash and pooled investments make up \$516,490 (44 percent), and due from other governments make up \$667,957 (56 percent).

The Board's long-term liabilities are for compensated absences. Amounts due to other governments account for 49 percent of the other liabilities. Other liabilities are detailed on the General Fund balance sheet under liabilities.

The following analysis focuses on the Board's changes in net assets (Table 2).

**Table 2**  
**Changes in Net Assets**

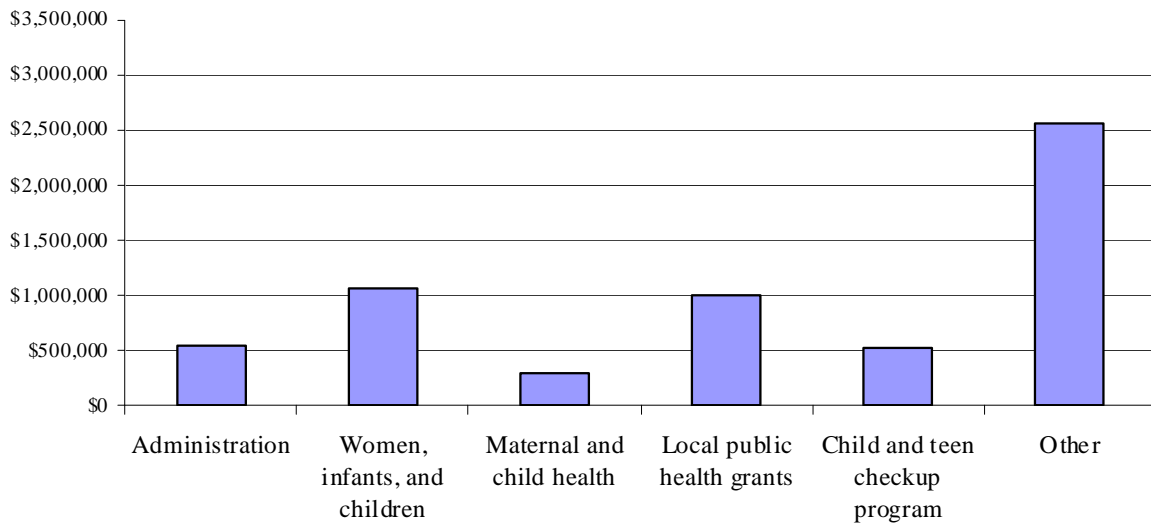
	Governmental Activities	
	2011	2010
Revenues		
Program revenues		
Operating grants and contributions	\$ 6,073,622	\$ 6,643,895
Miscellaneous revenue	-	1,091
Total Revenues	\$ 6,073,622	\$ 6,644,986

	Governmental Activities	
	2011	2010
Expenses		
Program expenses		
Administration	\$ 550,807	\$ 495,893
Women, infants, and children	1,073,077	1,049,818
Maternal and child health	308,528	298,712
Local public health grants	998,098	998,376
Child and teen checkup program	536,061	519,132
Other	2,564,510	3,235,454
Total Expenses	<u>\$ 6,031,081</u>	<u>\$ 6,597,385</u>
Increase (Decrease) in Net Assets	\$ 42,541	\$ 47,601
Net Assets - January 1	<u>205,532</u>	<u>157,931</u>
Net Assets - December 31	<u><u>\$ 248,073</u></u>	<u><u>\$ 205,532</u></u>

Operating grants and contributions were from state-shared revenues and reimbursements and state and federal grants. State grants of \$3,355,283 and federal grants of \$2,718,339 were reported in 2011.

Expenditures and revenues are shown in detail in the budgetary comparison schedule.

**Expenses  
Governmental Activities**



Operating grants and contributions made up 100 percent of the governmental activities' revenues.

## **Financial Analysis of the General Fund**

As noted earlier, the Carlton, Cook, Lake, and St. Louis Community Health Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Board's General Fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of net resources available for spending at the end of the fiscal year.

As of December 31, 2011, the Board's General Fund reported a fund balance of \$23,314, compared with \$78,768 in 2010. Of the fund balance, \$19,556 was unrestricted, which is available for spending at the Board's discretion.

The Board's General Fund fund balance decreased \$55,454 as a result of long-term assets that were not available to pay current period expenditures. Therefore, these revenues were deferred in the General Fund.

## **General Fund Budgetary Highlights**

The Carlton, Cook, Lake, and St. Louis Community Health Board is a regional organization providing services to four counties in northeastern Minnesota. The majority of the funding is provided through state and federal grants. Reimbursement for services is a minor funding source.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At year-end, the Board did not have any capital assets.

### **Debt Administration**

At year-end, the Board did not have any outstanding debt.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Carlton, Cook, Lake, and St. Louis Community Health Board is both state and federal budget-responsive. The Board operates as the applicant agency for the four member counties and receives funding for various federal and state public health programs from the Minnesota Department of Health and the Minnesota Department of Human Services on a noncompetitive population needs-based formula or through a competitive grant application process. Funding allocations will fluctuate according to state and federal actions and population changes. The number of successful competitive grant-funding awards also affects the overall Board budget.

With some fluctuation in certain public health programs, funding levels have remained relatively consistent. Two new larger programs were continued in 2011, which included the Minnesota Statewide Health Improvement Program (SHIP) for \$1,741,228 and the Public Health Emergency Response (PHER) Federal Grant which was funded in the amount of \$424,694. Both of those funding streams continued into 2012.

The Carlton, Cook, Lake, and St. Louis Community Health Board is the largest community health board (in geographic area) in the state. Carlton, Cook, Lake, and St. Louis Counties are located in northeastern Minnesota and cover 10,635 miles (over 13 percent of the entire square miles in the state of Minnesota).

St. Louis County's population represents 80 percent of the total four-county population. Carlton County is approximately 13 percent, Cook County is approximately 2 percent, and Lake County is approximately 5 percent. The same percentages follow through in the total Board funding levels.

### **CONTACTING THE CARLTON, COOK, LAKE, AND ST. LOUIS COMMUNITY HEALTH BOARD'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of finances and to show the Carlton, Cook, Lake, and St. Louis Community Health Board's accountability for the money it receives. If you have a question about this report, or need information, contact the Board's Office at 404 West Superior Street, Suite 220, Duluth, Minnesota 55802.

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

**EXHIBIT 1**

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

	<u>Primary Government Governmental Activities</u>
<b><u>Assets</u></b>	
Cash and pooled investments	\$ 516,490
Accounts receivable	377
Due from other governments	667,957
Prepaid items	<u>3,758</u>
<b>Total Assets</b>	<b><u>\$ 1,188,582</u></b>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 97,076
Salaries payable	7,810
Due to other governments	457,713
Unearned revenue	352,730
Long-term liabilities	
Due in more than one year	<u>25,180</u>
<b>Total Liabilities</b>	<b><u>\$ 940,509</u></b>
<b><u>Net Assets</u></b>	
Unrestricted	<b><u><u>\$ 248,073</u></u></b>

**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

*EXHIBIT 2*

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets Primary Government Governmental Activities</u>
<b><u>Functions/Programs</u></b>			
<b>Primary government</b>			
<b>Governmental activities</b>			
Human Services	\$ 858,269	\$ 378,624	\$ (479,645)
Health	<u>5,172,812</u>	<u>5,694,998</u>	<u>522,186</u>
<b>Total Governmental Activities</b>	<b><u>\$ 6,031,081</u></b>	<b><u>\$ 6,073,622</u></b>	<b><u>\$ 42,541</u></b>
			<b>Change in net assets</b>
			<b>\$ 42,541</b>
			<b>Net Assets - Beginning</b>
			<b><u>205,532</u></b>
			<b>Net Assets - Ending</b>
			<b><u>\$ 248,073</u></b>

**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUND**

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**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011**

	<b>General</b>
<b><u>Assets</u></b>	
Cash and pooled investments	\$ 516,490
Accounts receivable	377
Due from other governments	667,957
Prepaid expense	3,758
<b>Total Assets</b>	<b>\$ 1,188,582</b>
<b><u>Liabilities and Fund Balances</u></b>	
<b>Liabilities</b>	
Accounts payable	\$ 97,076
Salaries payable	7,810
Due to other governments	457,713
Deferred revenue - unavailable	249,939
Deferred revenue - unearned	352,730
<b>Total Liabilities</b>	<b>\$ 1,165,268</b>
<b>Fund Balances</b>	
Nonspendable	
Prepaid items	\$ 3,758
Assigned	
Vesting sick leave	10,842
Special projects	8,714
<b>Total Fund Balances</b>	<b>\$ 23,314</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,188,582</b>

**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

***EXHIBIT 4***

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2011**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$ 23,314</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	249,939
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	<u>(25,180)</u>
<b>Net Assets of Governmental Activities (Exhibit 1)</b>	<b><u><u>\$ 248,073</u></u></b>

**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

***EXHIBIT 5***

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>General Fund</u>
<b>Revenues</b>	
Intergovernmental	\$ 5,953,113
Miscellaneous	<u>20,382</u>
<b>Total Revenues</b>	<b><u>\$ 5,973,495</u></b>
<b>Expenditures</b>	
<b>Current</b>	
Health	\$ 5,170,680
Human services	<u>858,269</u>
<b>Total Expenditures</b>	<b><u>\$ 6,028,949</u></b>
<b>Net Change in Fund Balances</b>	<b>\$ (55,454)</b>
<b>Fund Balances - January 1</b>	<b><u>78,768</u></b>
<b>Fund Balances - December 31</b>	<b><u><u>\$ 23,314</u></u></b>

**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**Net change in fund balances - total governmental funds (Exhibit 5)** **\$ (55,454)**

Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred revenue - January 1	\$ (149,812)	
Deferred revenue - December 31	<u>249,939</u>	100,127

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Changes in compensated absences during 2011		
Payable - January 1	\$ 23,048	
Payable - December 31	<u>(25,180)</u>	<u>(2,132)</u>

**Change in Net Assets of Governmental Activities (Exhibit 2)** **\$ 42,541**

**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

**EXHIBIT 7**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 6,424,906	\$ 6,424,906	\$ 5,953,113	\$ (471,793)
Miscellaneous	17,171	17,171	20,382	3,211
<b>Total Revenues</b>	<b>\$ 6,442,077</b>	<b>\$ 6,442,077</b>	<b>\$ 5,973,495</b>	<b>\$ (468,582)</b>
<b>Expenditures</b>				
<b>Administration</b>				
Community Health Board	<b>\$ 676,516</b>	<b>\$ 676,516</b>	<b>\$ 550,807</b>	<b>\$ 125,709</b>
<b>Intergovernmental</b>				
Local Public Health Grant	\$ 998,098	\$ 998,098	\$ 998,098	\$ -
Special Supplemental Nutrition Program for Women, Infants, and Children	1,094,826	1,094,826	1,073,077	21,749
Maternal and Child Health	311,028	311,028	308,528	2,500
Immunization Grants	1,200	1,200	1,200	-
Needy Families (TANF)	391,986	391,986	391,226	760
Public Health Emergency Response	512,535	512,535	421,152	91,383
Immunizations - ARRA	8,205	8,205	6,645	1,560
Statewide Health Improvement Program	1,875,198	1,875,198	1,741,228	133,970
Child and Teen Checkups	547,358	547,358	536,061	11,297
UCARE	927	927	927	-
<b>Total intergovernmental</b>	<b>\$ 5,741,361</b>	<b>\$ 5,741,361</b>	<b>\$ 5,478,142</b>	<b>\$ 263,219</b>
<b>Total Expenditures</b>	<b>\$ 6,417,877</b>	<b>\$ 6,417,877</b>	<b>\$ 6,028,949</b>	<b>\$ 388,928</b>
<b>Net Change in Fund Balance</b>	<b>\$ 24,200</b>	<b>\$ 24,200</b>	<b>\$ (55,454)</b>	<b>\$ (79,654)</b>
<b>Fund Balance - January 1</b>	<b>78,768</b>	<b>78,768</b>	<b>78,768</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 102,968</b>	<b>\$ 102,968</b>	<b>\$ 23,314</b>	<b>\$ (79,654)</b>

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**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

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

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1. Summary of Significant Accounting Policies

The Carlton, Cook, Lake, and St. Louis Community Health Board's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Board are discussed below.

A. Financial Reporting Entity

The Carlton, Cook, Lake, and St. Louis Community Health Board was established pursuant to Minn. Stat. ch. 145A and a joint powers agreement effective January 1, 1991.

The Board is composed as follows:

- Except for St. Louis County, each member County Board of Commissioners appoints two members. St. Louis County is entitled to three members appointed by the County Board of Commissioners.
- Members appointed by each county having a Board of Health are selected from among those persons currently serving on that county's Board of Health or County Health Advisory Committee.
- Of the members appointed by member County Boards of Commissioners, at least one member shall be a County Commissioner.

The primary activities of the Board 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.

**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

St. Louis County reports the financial transactions of the Board in an agency fund on its annual financial statements.

B. Basic Financial Statements

Basic financial statements include information on the Board's activities as a whole and information on the individual fund. In the government-wide statement of net assets, the governmental activities column is reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Statement of Activities demonstrates the degree to which the expenses of the Board are offset by revenues.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund are presented on the modified accrual basis and report current financial resources.

C. Measurement Focus and Basis of Accounting

The governmental activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Board considers all revenues as available if collected within 60 days after the end of the current period. Charges for services and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.



**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

The Board applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Pooled Investments

The Board's available cash balances are pooled and invested by St. Louis County in accordance with Minnesota statutes. The Board's cash balances and investments are at fair value based on quoted market prices. Additional disclosures defining cash and pooled investments can be found in the St. Louis County Comprehensive Annual Financial Report.

2. Capital Assets

Capital assets are defined by the Board as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. The Board did not have any capital assets costing more than \$5,000.

3. Deferred Revenue

Deferred revenue consists of state and federal pass-through grants received, but not yet earned. The General Fund also reports deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

4. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Under the Board's personnel policy, employees are granted vacation in varying amounts based on their length of service. Vacation leave earned varies from 25 to 29 days per year. Sick leave earned is 13 days per year.

Unused vacation leave is paid to employees upon termination. Unvested sick leave, approximately \$13,272 at December 31, 2011, is available to employees in the event of illness-related absences and is not paid to them at termination. The amount of unvested sick leave is not reported in the financial statements.

The Board's personnel policy allows vested sick leave to be paid to employees at retirement or used for the payment of employees' health insurance coverage during their retirement. This only applies to employees who have retired after having been continuously employed by the Board for at least five years prior to such retirement and having up to 1,900 hours of unused sick leave time.

5. 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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

6. Classification of Net Assets

Net assets in the government-wide financial statements are classified in the following categories:

Invested in capital assets, net of related debt - the amount of net assets representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net assets - the amount of net assets for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

7. Classification of Fund Balances

In 2011, the Board implemented the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement requires retroactive restatement of fund balance for the reclassifications made to conform to this statement. Total fund balance did not change. Fund balance is divided into five classifications based primarily on the extent to which the Board is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Classification of Fund Balances (Continued)

Nonspendable - amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - the amounts for which constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for the specific purposes imposed by formal action of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned - amounts the Board intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board.

Unassigned - unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications.

**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

8. Reclassifications

Several account balances were reclassified as of and for the year ended December 31, 2010, as previously reported due to implementation of GASB 54. These reclassifications were required for comparability to the financial statements as of and for the year ended December 31, 2011. Although comparative statements for 2010 are not presented here, these reclassifications must be considered when comparing the financial statements of this report with those of prior reports.

E. Budgetary Information

The Carlton, Cook, Lake, and St. Louis Community Health Board adopts an annual revenue and expenditure budget for the General Fund on a basis consistent with generally accepted accounting principles. The budget is subject to approval by the State of Minnesota and the Board, which comprises representatives from the member counties.

In the fall (September/October) of each year, the Board Director submits a request for appropriations in the Board administration budget, including funding sources, to the Community Health Board for approval so that individual county appropriations can be determined and Board administration budgets can be prepared. County budgets are approved by the local County Board. The Board submits the four counties' budgets to the state for approval.

The appropriated budgets are prepared by each member County Board. The counties may make transfers of appropriations within their own county when appropriate. Transfer of appropriations between county departments requires County Board approval. The legal level of budgetary control (the level at which expenditures may not legally exceed the budget) is at the county level.

For the year ended December 31, 2011, revenue was under expectations by \$468,582; expenditures were under budget by \$388,928.

**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

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2. Detailed Notes

A. Assets

1. Deposits and Investments

The Board is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to deposit its cash and to invest in certificates of deposit in financial institutions designated by the St. Louis County Board of Commissioners and the Carlton, Cook, Lake, and St. Louis Community Health Board. Minnesota statutes require that all Board deposits be covered by insurance, surety bond, or collateral. The types of securities available to the Board for investment are authorized by Minn. Stat. §§ 118A.04 and 118A.05.

Additional disclosures as required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, and GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, are disclosed on an entity-wide basis in the St. Louis County Comprehensive Annual Financial Report.

2. Receivables

Receivables as of December 31, 2011, were:

	Governmental Activities	Amounts Not Expected to Be Collected Within One Year
Accounts	\$ 377	\$ -
Due from other governments	667,957	-
Total Receivables	\$ 668,334	\$ -

**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

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2. Detailed Notes (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

	Governmental Activities
Accounts	\$ 97,076
Salaries	7,810
Due to other governments	457,713
Total Payables	\$ 562,599

2. Operating Leases

The Board is committed under operating leases for office space and office equipment. These leases are expected to continue or be replaced with similar leases. Total costs for such leases were \$9,300 for the year ended December 31, 2011. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2012	\$ 9,716
2013	9,924
2014	3,308
Total	\$ 22,948

3. Deferred Compensation

The Board's employees participate in St. Louis County's deferred compensation plan.

**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

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2. Detailed Notes

B. Liabilities (Continued)

4. Long-Term Liabilities

Changes in compensated absences payable for 2011 were:

January 1	\$ 23,048
Net increase	<u>2,132</u>
December 31	<u>\$ 25,180</u>

No amount is expected to be paid out in 2012.

5. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The Board participates in St. Louis County's dental and life insurance plans; the Board purchases commercial insurance for all other risks of loss. The Board 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.

3. Employee Retirement Systems and Pension Plans

A. Plan Description

All full-time and certain part-time employees of the Carlton, Cook, Lake, and St. Louis Community Health Board 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.



**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

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3. Employee Retirement Systems and 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.

**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

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3. Employee Retirement Systems and 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](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

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

The Carlton, Cook, Lake, and St. Louis Community Health Board is required to contribute the following percentages of annual covered payroll in 2011:

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

The Carlton, Cook, Lake, and St. Louis Community Health Board's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund were:

<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 12,902	\$ 13,413	\$ 10,911

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

**SUPPLEMENTARY INFORMATION**

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**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

***EXHIBIT A-1***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**Grants**

**State**

Minnesota Department of Health	\$ 3,048,277
Human Services	253,651
	253,651
<b>Total state</b>	<b>\$ 3,301,928</b>

**Federal**

Special Supplemental Nutrition Program for Women, Infants, and Children	\$ 1,092,290
Universal Newborn Hearing Screening	3,875
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	11,233
Immunization Grants	1,200
National Public Health Improvement Initiative	4,097
ATOD	101,031
Temporary Assistance for Needy Families (TANF)	391,226
Medical Assistance Program	253,651
Public Health Emergency Preparedness	424,694
Grants to States to Support Oral Health Workforce Activities	19,265
Immunization Grants - ARRA	6,645
Maternal and Child Health Services Block Grant	341,978
	341,978

**Total federal** **\$ 2,651,185**

**Total Intergovernmental Revenue** **\$ 5,953,113**

**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

*EXHIBIT A-2*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	<b>\$ 1,092,290</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	\$ 424,693
Universal Newborn Hearing Screening	93.251	3,875
Immunization Cluster		
Immunization Cooperative Agreements	93.268	1,200
Immunization - ARRA	93.712	6,645
Temporary Assistance for Needy Families	93.558	391,226
Maternal and Child Health Services Block Grant to the States	93.994	341,978
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	11,233
Grants to States to Support Oral Health Workforce Activities	93.236	19,265
National Public Health Improvement Initiative	93.507	4,097
Passed Through Minnesota Department of Human Services Medical Assistance Programs	93.778	270,531
Block Grant for the Prevention and Treatment of Substance Abuse	93.959	101,031
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 1,575,774</b>
<b>Total Federal Awards</b>		<b>\$ 2,668,064</b>

**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Carlton, Cook, Lake, and St. Louis Community Health Board. The Board's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Carlton, Cook, Lake, and St. Louis Community Health Board under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Carlton, Cook, Lake, and St. Louis Community Health Board, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Carlton, Cook, Lake, and St. Louis Community Health Board.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers were not assigned by the pass-through agencies.

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Immunization Cluster	\$	7,845
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**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 2,651,185
Grants received more than 90 days after year-end, deferred in 2011	
Medical Assistance Program	91,785
Grants deferred in 2010, recognized as revenue in 2011	
Medical Assistance Program	(74,906)
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 2,668,064

6. Subrecipients

Of the expenditures presented in the schedule, the Carlton, Cook, Lake, and St. Louis Community Health Board provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$ 1,072,748
93.069	Public Health Emergency Preparedness	424,693
93.251	Universal Newborn Hearing Screening	3,875
93.268	Immunization Grants	1,200
93.558	Temporary Assistance for Needy Families	391,226
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	11,233
93.712	Immunization - ARRA	6,645
93.778	Medical Assistance Program	268,031
93.994	Maternal and Child Health Services Block Grant	308,528
	Total	\$ 2,488,179

7. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.





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**CARLTON, COOK, LAKE, AND ST. LOUIS  
COMMUNITY HEALTH BOARD  
DULUTH, MINNESOTA**

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

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

Special Supplemental Nutrition Program for Women, Infants, and Children	CFDA #10.557
Medical Assistance	CFDA #93.778

The threshold for distinguishing between Types A and B programs was \$300,000.

Is the Carlton, Cook, Lake, and St. Louis Community Health Board qualified as low-risk auditee? **Yes**

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

##### 96-1 Segregation of Duties

**Criteria:** Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect Health Board assets, proper segregation of the record-keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

**Condition:** Due to the limited number of personnel, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible.

**Context:** The size of the Carlton, Cook, Lake, and St. Louis Community Health Board and its staffing limits the internal control that management can design and implement into the organization. Without proper segregation of duties, errors or irregularities may not be detected timely.

**Effect:** Inadequate segregation of duties could adversely affect the Health Board's ability to detect misstatements in a timely period by employees in the normal course of performing their assigned functions.

**Cause:** The size of the Health Board and its staffing limits the internal control that management can design and implement into the organization.

**Recommendation:** Management should be aware that segregation of duties is not adequate from an internal control point of view. We recommend the Board of Directors be mindful that limited staffing causes inherent risks in safeguarding the Carlton, Cook, Lake, and St. Louis Community Health Board's assets and the proper reporting of its financial activity. We recommend the Board of Directors continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

*The Carlton, Cook, Lake, and St. Louis Community Health Board is aware of the internal control situation and is in continuous review of the Board's operations. The CHB Staff is building in additional checks and balances through the Mitchell-Humphrey Financial System. No formal completion date is applicable.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Preparation of Financial Statements (96-1)**

The Health Board needed to broaden its participation in the preparation of its financial statements and not rely so extensively on its external auditors for financial reporting.

**Resolution**

The Health Board, through St. Louis County's system, provides a general ledger, accruals, and other supporting schedules necessary for preparing fund level and government-wide financial statements. The Health Board has improved its understanding and preparation of underlying accounting data used in the preparation of the financial statements.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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### **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 Directors  
Carlton, Cook, Lake, and St. Louis  
Community Health Board

We have audited the financial statements of the governmental activities and the General Fund of the Carlton, Cook, Lake, and St. Louis Community Health Board as of and for the year ended December 31, 2011, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 24, 2012. 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

Management of the Carlton, Cook, Lake, and St. Louis Community Health Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Carlton, Cook, Lake, and St. Louis Community Health Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as item 96-1, that we consider to be a significant deficiency in internal control over financial reporting. 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.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Carlton, Cook, Lake, and St. Louis Community Health Board'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 Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in contracting and bidding and public indebtedness because these requirements did not apply.

The results of our tests indicate that, for the items tested, the Carlton, Cook, Lake, and St. Louis Community Health Board complied with the material terms and conditions of applicable legal provisions.

The Carlton, Cook, Lake, and St. Louis Community Health Board's written response to the internal control finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. We did not audit the Board's response and, accordingly, we express no opinion on it.



This report is intended solely for the information and use of the Board of Directors of the Carlton, Cook, Lake, and St. Louis Community Health Board, management, others within the Board, federal awarding agencies and pass-through entities 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

September 24, 2012

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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### **REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
Carlton, Cook, Lake, and St. Louis  
Community Health Board

#### Compliance

We have audited Carlton, Cook, Lake, and St. Louis Community Health Board's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. Carlton, Cook, Lake, and St. Louis Community Health Board's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Carlton, Cook, Lake, and St. Louis Community Health Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Carlton, Cook, Lake, and St. Louis Community Health Board's compliance with those requirements.

In our opinion, the Carlton, Cook, Lake, and St. Louis Community Health Board complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

### Internal Control Over Compliance

Management of the Carlton, Cook, Lake, and St. Louis Community Health Board is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Carlton, Cook, Lake, and St. Louis Community Health Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Carlton, Cook, Lake, and St. Louis Community Health Board's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Carlton, Cook, Lake, and St. Louis Community Health Board and its board of directors, management and others within the Community Health Board, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 24, 2012