

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

FOR THE YEAR ENDED DECEMBER 31, 2008

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

For the Year Ended December 31, 2008



**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**

ORGANIZATION
DECEMBER 31, 2008

Representing

Board

Barbara Little, Chair
Marv Bodie
Beverly Green
Janice Hall
Thomas Clifford, M.D.
Brad Alm
Mike Forsman
Steve O'Neil
Peg Sweeney

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

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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, 2008, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2008, and the respective 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.

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

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Carlton, Cook, Lake, and St. Louis Community Health Board's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Carlton, Cook, Lake, and St. Louis Community Health Board. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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 December 29, 2009, 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

December 29, 2009

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, 2008
(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, 2008. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The total net assets of the Board decreased by \$31,658, or 20 percent.
- The Board's General Fund reported an ending fund balance of \$144,471, a decrease of \$50,115. Undesignated, unreserved fund balance (available spendable resources) account for \$142,776 of the fund balance, or 98 percent.
- The General Fund reported a deficit of revenue under expenditures of \$50,115.

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--is 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 in the final columns of 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. We describe the relationship (or differences) between General Fund activities (reported in the first column of Exhibits 1 and 2) and governmental activities (reported in the final column) in a reconciliation in the middle column of the statements.

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 13 through 22.

Supporting Schedules

A schedule of intergovernmental revenue is included as Schedule 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 \$125,355.

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	
	2008	2007
Current and other assets	\$ 975,422	\$ 1,311,645
Other liabilities	\$ 830,951	\$ 1,117,059
Long-term liabilities outstanding	19,116	37,573
Total Liabilities	\$ 850,067	\$ 1,154,632
Net Assets		
Unrestricted	\$ 125,355	\$ 157,013

Governmental Activities

The Board's net assets decreased by \$31,658, or 20 percent, from \$157,013 to \$125,355. The decrease was due to the retirement of a long-term employee.

Current and other assets are cash and pooled investments (\$441,949, or 45 percent) and due from other governments (\$533,473, or 55 percent).

The Board's long-term liabilities are for compensated absences. Amounts due to other governments account for 90 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).

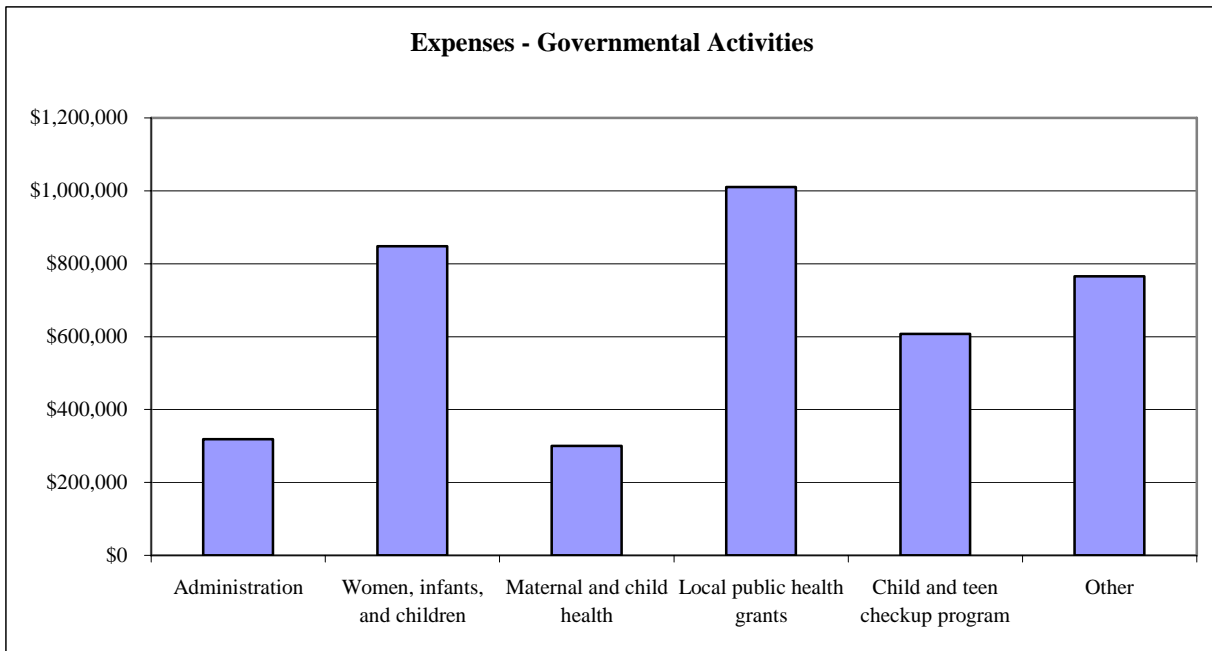
Table 2
Changes in Net Assets

	Governmental Activities	
	2008	2007
Revenues		
Program revenues		
Operating grants and contributions	\$ 3,818,828	\$ 3,742,318

	Governmental Activities	
	2008	2007
Expenses		
Program expenses		
Administration	\$ 318,337	\$ 333,514
Women, infants, and children	848,039	866,526
Maternal and child health	300,162	300,160
Local public health grants	1,010,472	1,019,627
Child and teen checkup program	607,706	498,725
Other	765,770	698,020
Total Expenses	\$ 3,850,486	\$ 3,716,572
Increase (Decrease) in Net Assets	\$ (31,658)	\$ 25,746
Net Assets - January 1	157,013	131,267
Net Assets - December 31	\$ 125,355	\$ 157,013

Operating grants and contributions were from state-shared revenues and reimbursements and state and federal grants. State grants of \$1,457,136 and federal grants of \$2,262,666 were reported in 2008.

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



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, unreserved 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, 2008, the Board's General Fund reported a fund balance of \$144,471, compared with \$194,586 in 2007. All of the fund balance, or \$144,471, was unreserved fund balance, which is available for spending at the Board's discretion.

The Board's fund balance decreased \$50,115 as a result of expenditures exceeding revenues.

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. Due to legislative action in 2003, with the consolidation of certain public health programs and

grants and the elimination of others, there was a significant change in the funding levels between 2003 and 2004. With some fluctuation in certain public health programs, funding levels have remained relatively consistent during 2007 and 2008 (with an approximate \$133,914 increase for 2008).

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

EXHIBIT 1

**GENERAL FUND BALANCE SHEET
AND GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2008**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 441,949	\$ -	\$ 441,949
Due from other governments	533,473	-	533,473
Total Assets	\$ 975,422	\$ -	\$ 975,422
 <u>Liabilities and Fund Balance/Net Assets</u>			
Current liabilities			
Accounts payable	\$ 3,796	\$ -	\$ 3,796
Salaries payable	5,467	-	5,467
Due to other governments	744,889	-	744,889
Deferred revenue - unearned	76,799	-	76,799
Noncurrent liabilities			
Due in more than one year	-	19,116	19,116
Total Liabilities	\$ 830,951	\$ 19,116	\$ 850,067
Fund Balance			
Designated for special projects	\$ 1,695	\$ (1,695)	
Unreserved			
Undesignated	142,776	(142,776)	
Total Fund Balance	\$ 144,471	\$ (144,471)	
Net Assets			
Unrestricted		\$ 125,355	125,355
Total Liabilities and Fund Balance/Net Assets	\$ 975,422	\$ -	\$ 975,422
 Reconciliation of the General Fund Balance to Net Assets			
Fund Balance - General Fund			\$ 144,471
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.			
Compensated absences			(19,116)
Net Assets - Governmental Activities			\$ 125,355

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

EXHIBIT 2

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2008**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 3,818,828	\$ -	\$ 3,818,828
Expenditures/Expenses			
Current			
Administration	\$ 336,794	\$ (18,457)	\$ 318,337
Human services	607,706	-	607,706
Health	2,924,443	-	2,924,443
Total Expenditures/Expenses	\$ 3,868,943	\$ (18,457)	\$ 3,850,486
Net Change in Fund Balance/Net Assets	\$ (50,115)	\$ 18,457	\$ (31,658)
Fund Balance/Net Assets - January 1	194,586	(37,573)	157,013
Fund Balance/Net Assets - December 31	\$ 144,471	\$ (19,116)	\$ 125,355
 Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities of Governmental Activities			
Net Change in Fund Balance			\$ (50,115)
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 the General Fund.			
Changes in compensated absences during 2008			
Payable - January 1		\$ 37,573	
Payable - December 31		(19,116)	18,457
Change in Net Assets of Governmental Activities			\$ (31,658)

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

EXHIBIT 3

**BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 3,324,386	\$ 3,324,386	\$ 3,818,828	\$ 494,442
Expenditures				
Health				
Administration				
Community Health	\$ 369,086	\$ 369,086	\$ 336,794	\$ 32,292
Intergovernmental				
Local Public Health Grant	\$ 760,738	\$ 760,738	\$ 1,010,472	\$ (249,734)
Centers for Disease Control and Prevention	331,172	331,172	331,348	(176)
WIC	699,387	699,387	848,039	(148,652)
MCH Grant	300,170	300,170	300,162	8
Suicide Prevention Grant	23,915	23,915	23,915	-
Immunization Grants	7,480	7,480	7,480	-
Quality Improvement	1,274	1,274	1,274	-
State Indoor Radon Grant	4,270	4,270	4,270	-
Home Visiting - TANF	387,629	387,629	387,629	-
NEMOPP	17,223	17,223	9,774	7,449
Child and Teen Checkups MA	490,725	490,725	607,706	(116,981)
UCARE	80	80	80	-
Total intergovernmental	\$ 3,024,063	\$ 3,024,063	\$ 3,532,149	\$ (508,086)
Total Expenditures	\$ 3,393,149	\$ 3,393,149	\$ 3,868,943	\$ (475,794)
Net Change in Fund Balance	\$ (68,763)	\$ (68,763)	\$ (50,115)	\$ 18,648
Fund Balance - January 1	194,586	194,586	194,586	-
Fund Balance - December 31	\$ 125,823	\$ 125,823	\$ 144,471	\$ 18,648

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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, 2008

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, 2008. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board 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**

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. These separate presentations are reported in different columns on Exhibits 1 and 2. Each of the Exhibits starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of the Board as a whole.

The governmental activities columns are reported on the 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 Balance 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 180 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

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

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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.

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

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.

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

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Compensated Absences (Continued)

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 \$13,050 at December 31, 2008, is available to employees in the event of illness-related absences and is not paid to them at termination.

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 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**

1. Summary of Significant Accounting Policies (Continued)

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, 2008, expenditures were over budget by \$475,794; revenue exceeded expectations by \$494,442.

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 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.

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

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

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, 2008, were:

	Governmental Activities	Not Expected to be Collected Within the Year
Due from other governments	\$ 533,473	\$ -

B. Liabilities

1. Payables

Payables at December 31, 2008, were as follows:

	Governmental Activities
Accounts	\$ 3,796
Salaries	5,467
Due to other governments	744,889
Total Payables	\$ 754,152

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

2. Detailed Notes

B. Liabilities (Continued)

2. Leases

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 \$8,580 for the year ended December 31, 2008. The future minimum lease payments for these leases are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2009	<u>\$ 2,860</u>

3. Deferred Compensation

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

4. Long-Term Liabilities

Changes in compensated absences payable for 2008 were:

January 1	\$ 37,573
Net decrease	<u>(18,457)</u>
December 31	<u>\$ 19,116</u>

No amount is expected to be paid out in 2009.

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

2. Detailed Notes

B. Liabilities (Continued)

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 plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

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

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

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

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

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

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

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

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. The Board makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary.

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

3. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

The Board is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

	2008	2009
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75

The Board's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund were:

2008	2007	2006
\$ 10,124	\$ 9,318	\$ 6,608

These contribution amounts are equal to the contractually required contributions 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**

Schedule 1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2008**

Shared Revenues	
State	
PERA rate reimbursement	\$ 1,008
Reimbursement for Services	
State	
IGR - reimbursement for services - human services	\$ 93,349
Grants	
State	
Minnesota Department of Health	\$ 1,158,536
Human Services	<u>298,600</u>
Total State Grants	\$ 1,457,136
Federal	
Special Supplemental Nutrition Program (WIC)	\$ 842,830
Drug-Free Communities Support Program Grant	94,408
State Indoor Radon Grant	4,270
Immunization Grant	7,480
Centers for Disease Control and Prevention	338,586
Medical Assistance	245,363
Quality Improvement	1,595
Maternal and Child Health Services Block Grant	340,505
Temporary Assistance for Needy Families (TANF)	<u>387,629</u>
Total Federal Grants	\$ 2,262,666
Local	
Arrowhead Regional Development Commission	\$ 4,669
Total Grants	\$ 3,724,471
Total Intergovernmental Revenue	\$ 3,818,828

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

Schedule 2

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of the Carlton, Cook, Lake, and St. Louis Community Health Board.
- B. A significant deficiency in internal control was disclosed by the audit of financial statements of the Carlton, Cook, Lake, and St. Louis Community Health Board and is reported in the "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*." The significant deficiency is a material weakness.
- C. No instances of noncompliance material to the financial statements of the Carlton, Cook, Lake, and St. Louis Community Health Board were disclosed during the audit.
- D. No matters involving internal controls over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for the Carlton, Cook, Lake, and St. Louis Community Health Board expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- | | |
|--|--------------|
| Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) | CFDA #10.557 |
| Centers for Disease Control and Prevention - Investigations and Technical Assistance | CFDA #93.283 |
| Temporary Assistance for Needy Families | CFDA #93.558 |

- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. The Carlton, Cook, Lake, and St. Louis Community Health Board was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. 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. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Management has requested that we prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of the Carlton, Cook, Lake, and St. Louis Community Health Board. This decision was based on the availability of the Board's staff and the cost benefit of using our expertise.

During our audit, we proposed material adjustments to convert the Board's financial records to the financial statements as reported. These adjustments reclassified payables and added additional liabilities that resulted in an increase in related expenditures and revenues.

We recommend the Board of Directors be mindful that limited staffing causes inherent risks in safeguarding the 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. No formal completion date is applicable.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

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REBECCA OTTO
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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, 2008, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated December 29, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control. We considered the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 96-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Board's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above is considered to be a material weakness.

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 Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

Carlton, Cook, Lake, and St. Louis Community Health Board's written response to the material weakness 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 Carlton, Cook, Lake, and St. Louis 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

December 29, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND 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 the compliance of the Carlton, Cook, Lake, and St. Louis Community Health Board with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. 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 the 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 on the 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 requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The 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 Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Board's internal control over compliance.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Board's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Carlton, Cook, Lake, and St. Louis Community Health Board's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Schedule of Expenditures of Federal Awards

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, 2008, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated December 29, 2009. Our audit was performed for the

purpose of forming opinions on the Carlton, Cook, Lake, and St. Louis Community Health Board's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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 Carlton, Cook, Lake, and St. Louis 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

December 29, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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

Schedule 3

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 842,830	\$ 842,830
U.S. Environmental Protection Agency			
Passed Through Minnesota Department of Health State Indoor Radon Grants	66.032	\$ 4,270	\$ 4,270
U.S. Department of Health and Human Services			
Passed through Minnesota Department of Health Immunization Grants	93.268	\$ 7,480	\$ 7,480
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	338,586	338,586
Temporary Assistance for Needy Families (TANF)	93.558	387,629	387,629
Medical Assistance Program	93.778	245,363	245,363
Block Grant for Prevention and Treatment of Substance Abuse	93.959	94,408	-
Preventive Health and Health Services Block Grant	93.991	1,595	1,595
Maternal and Child Health Services Block Grant	93.994	340,505	300,170
Total U.S. Department of Health and Human Services		\$ 1,415,566	\$ 1,280,823
Total Federal Awards		\$ 2,262,666	\$ 2,127,923

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity 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. The expenditures on this schedule are on the modified accrual basis of accounting, in which grant revenues do not always equal grant expenditures.
3. Pass-through grant numbers were not assigned by the pass-through agencies.