

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

BROWN-NICOLLET COMMUNITY
HEALTH SERVICES
ST. PETER, MINNESOTA

YEAR ENDED DECEMBER 31, 2007

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.

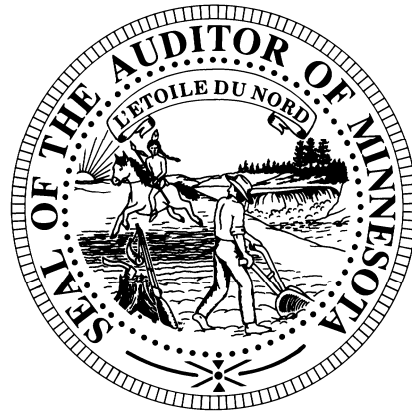
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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.

**BROWN-NICOLLET COMMUNITY
HEALTH SERVICES
ST. PETER, MINNESOTA**

Year Ended December 31, 2007



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

This page was left blank intentionally.

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	11
Statement of Activities	Exhibit 2	12
Fund Financial Statements		
Governmental Fund Balance Sheet	Exhibit 3	13
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Assets	Exhibit 4	14
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	Exhibit 5	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities--Governmental Activities	Exhibit 6	16
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budgetary Comparison	Exhibit 7	17
Notes to the Financial Statements		19
Management and Compliance Section		
Schedule of Findings and Recommendations		30
Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance		33

This page was left blank intentionally.

This page was left blank intentionally.

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

**ORGANIZATION
2007**

<u>Office</u>	<u>Name</u>
Board Members	
Brown County Commissioners	
Chair	James Berg
Member	Charles Guggisberg
Treasurer	Andrew Lochner
Member	Dennis Potter
Member	Richard Seeboth
Nicollet County Commissioners	
Member	Bruce Beatty
Vice Chair	David Haack
Member	Judy Hanson
Member	Jack Kolars
Secretary	James Stenson
Fiscal Administrator	Bridgette Kennedy
Management Team	
Co-Director	Karen Swenson Environmental Director
Co-Director	Anita Hoffmann Brown County Nursing Director
Co-Director	Nita Aasen Nicollet County Nursing Director

This page was left blank intentionally.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Health Services Board
Brown-Nicollet Community Health Services

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Brown-Nicollet Community Health Services as of and for the year ended December 31, 2007, which collectively comprise the Health Services' basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Health Services' 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. 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 Brown-Nicollet Community Health Services as of December 31, 2007, 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.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

February 12, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

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

The Brown-Nicollet Community Health Services' Management's Discussion and Analysis (MD&A) provides an overview of the Health Services' financial activities for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented here.

FINANCIAL HIGHLIGHTS

- On December 31, 2007, our total assets were \$911,469, and our total liabilities were \$223,842. We showed net assets of \$687,627, of which \$380,236 is invested in capital assets.
- Our income is mainly state and federal grants, fees from our licensing program, and charges for services.
- We have no debt or obligations to citizens or creditors.
- Long-term liabilities are for compensated absences.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Health Services' finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Health Services' assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Health Services is improving or deteriorating.

The Statement of Activities presents information showing how the Health Services' net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Health Services that are principally supported by fees and grants. The activities of the Health Services include environmental health, public health, surface and ground water monitoring, and protection. There are no business-type activities within the Health Services.

Fund Financial Statements

These statements provide detailed information about the General Fund--not the Health Services as a whole. The Health Services' General Fund is considered a governmental fund.

All of the Health Services' services are reported in the General Fund, which focuses on how money flows into and out of the fund and any balance left at year-end that is 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 Health Services' 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 the Health Services' programs. We describe the relationship (or differences) between General Fund activities and governmental activities in reconciliations on Exhibits 4 and 6.

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 can be found directly after Exhibit 7.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Governmental Activities

Net assets may, over time, be a useful indicator of the government's financial position. In the case of the Health Services, assets exceeded liabilities by \$687,627.

**Table 1
Governmental Net Assets**

	2007	2006 (Restated)
Current and other assets	\$ 531,233	\$ 398,310
Capital assets	380,236	390,320
Total Assets	\$ 911,469	\$ 788,630
Current liabilities	\$ 178,093	\$ 125,494
Long-term liabilities	45,749	49,269
Total Liabilities	\$ 223,842	\$ 174,763
Net Assets		
Invested in capital assets	\$ 380,236	\$ 390,320
Restricted for health	6,399	6,659
Unrestricted	300,992	216,888
Total Net Assets	\$ 687,627	\$ 613,867

The Health Services' net assets increased by \$73,760, or 12 percent, from \$613,867 to \$687,627.

Current assets and current liabilities have both increased as a result of more grant funds on hand due to other local governments. Capital assets decreased by the net of equipment purchased and depreciation expense incurred. The Health Services' long-term liabilities, which consist of compensated absences, remained relatively unchanged from the prior year.

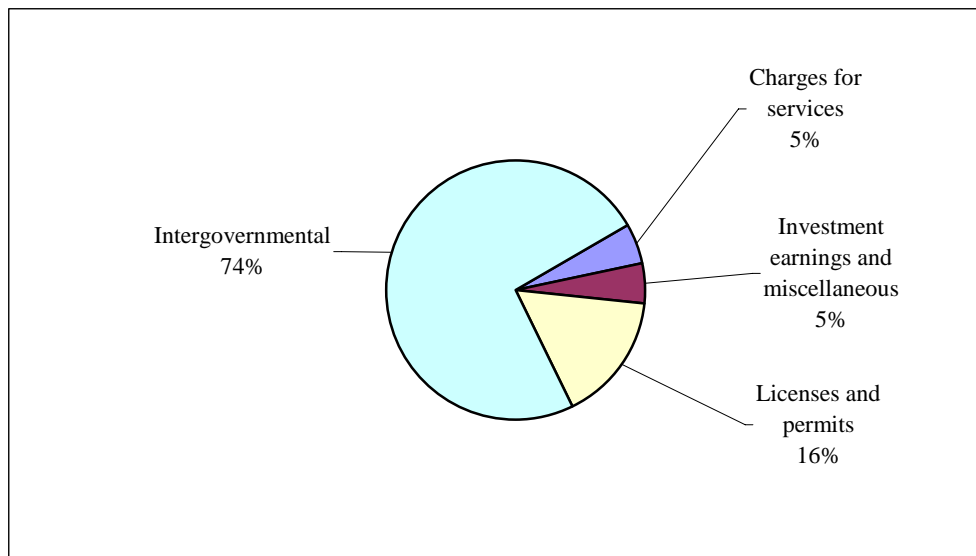
**Table 2
Changes in Net Assets**

	2007	2006 (Restated)
Revenues		
Program revenues		
Licenses and permits	\$ 210,339	\$ 195,772
Intergovernmental	986,073	897,346
Charges for services	65,887	71,931
Gifts and contributions	3,000	4,500
General revenues		
Investment earnings	12,857	10,298
Miscellaneous	50,116	46,470
Total Revenues	\$ 1,328,272	\$ 1,226,317

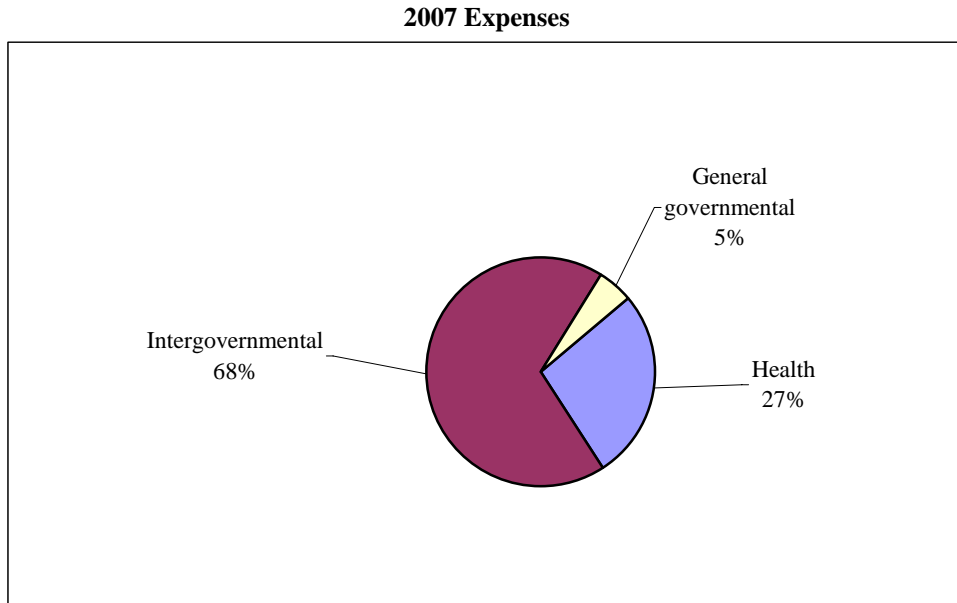
	2007	2006 (Restated)
Expenses		
Program expenses		
General government	\$ 58,113	\$ 50,343
Health	340,547	357,327
Intergovernmental payments	855,852	818,147
Total Expenses	<u>\$ 1,254,512</u>	<u>\$ 1,225,817</u>
Increase in Net Assets	\$ 73,760	\$ 500
Net Assets – January 1, Restated	<u>613,867</u>	<u>613,367</u>
Net Assets - December 31	<u><u>\$ 687,627</u></u>	<u><u>\$ 613,867</u></u>

Our largest revenues were from licenses and permits and intergovernmental sources. Increases in these two sources of revenue account for the majority of the \$101,955 increase from 2006. Licenses and permits revenues increased due to an increase in establishment licenses fees in January 2007. Intergovernmental revenues increased, in most part, because of the Little Cottonwood River and 7 Mile Project payments from the Minnesota Pollution Control Agency (MPCA). Other water quality projects attributing to the increase are the Controlled Drainage from Minnesota Department of Agriculture, Sediment Finger Printing from MPCA, and the Clean Water Legacy Grant from the Board of Water and Soil Resources. Other funds were received from the Department of Health and Human Services for federal grants (Temporary Assistance to Needy Families and Women, Infants and Children).

2007 Revenues



Expenses increased \$28,695, with large increases in intergovernmental payments. Intergovernmental payments increased because of payments to Brown and Nicollet Counties for various pass-through grants.



FINANCIAL ANALYSIS OF THE GENERAL FUND

As noted, the Health Services uses fund accounting to insure and demonstrate compliance with finance-related legal requirements.

The General Fund is to provide information on balances of expendable resources. Such information is useful in assessing the Health Services' 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 or to be carried into the next year's budgets.

The Brown-Nicollet Community Health Services provides services to Brown and Nicollet Counties in south central Minnesota. The majority of the funding is provided through state and federal grants. Reimbursement for services is a minor funding source. The Health Services also contracts environmental health program services to Cottonwood and Watonwan Counties in south central Minnesota.

GENERAL FUND BUDGETARY HIGHLIGHTS

Some changes were made to the budget during 2007. Revised budgets were approved by the Board at the November 2007 meeting. Revenues exceeded the budget amount in most part due to pass-through grants (to Brown and Nicollet Counties) that exceeded what had been budgeted. Expenditures exceeded the budget amount due to expenditures related to pass-through grants. Revenues and expenditures of these grants are directly related; just as revenues related to the grants were over budget, so too were the related expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Our capital assets decreased by \$10,084 as a result of current year's depreciation on the building and equipment.

Table 3
Capital Assets
(Net of Depreciation)

	<u>2007</u>	<u>2006</u>
Capital Assets		
Land	\$ 41,063	\$ 41,063
Building	329,357	345,448
Machinery, furniture, and equipment	<u>9,816</u>	<u>3,809</u>
Capital Assets, Net	<u>\$ 380,236</u>	<u>\$ 390,320</u>

Debt Administration

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Health Services is both state and federal budget-responsive. The Health Services operates as the applicant agency for the two member counties and receives funding for various federal and state public health programs from the Minnesota Department of Health, Minnesota Department of Human Services, Minnesota Pollution Control Agency, and Water and Soil Resources Board on a noncompetitive population needs-based formula or through a competitive grant application process. Funding will fluctuate according to state and federal actions and population changes.

Funding from license fees and fees for service will remain relatively consistent, with a small increase for 2008 based on a five percent increase in the establishment's fee schedule.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of the Health Services' finances for all those with an interest in our finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to our office, Brown-Nicollet Community Health Services, 322 South Minnesota Avenue, St. Peter, Minnesota 56082.

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page was left blank intentionally.

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

		<u>Governmental Activities</u>
<u>Assets</u>		
Cash and pooled investments	\$	445,862
Due from other governments		85,371
Capital assets		
Non-depreciable		41,063
Depreciable assets - net		<u>339,173</u>
Total Assets	\$	<u>911,469</u>
<u>Liabilities</u>		
Accounts payable	\$	12,831
Salaries payable		5,165
Due to other governments		89,872
Unearned revenue		70,225
Long-term liabilities		
Due within one year		23,114
Due in more than one year		<u>22,635</u>
Total Liabilities	\$	<u>223,842</u>
<u>Net Assets</u>		
Invested in capital assets	\$	380,236
Restricted for health		6,399
Unrestricted		<u>300,992</u>
Total Net Assets	\$	<u><u>687,627</u></u>

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>Functions/Programs</u>		<u>Fees, Charges, and Other</u>	<u>Operating Grants and Contributions</u>	
Primary government				
Governmental activities				
General government	\$ 58,113	\$ 2,000	\$ 8,531	\$ (47,582)
Health	1,196,399	274,226	980,542	58,369
Total Primary Government	<u>\$ 1,254,512</u>	<u>\$ 276,226</u>	<u>\$ 989,073</u>	<u>\$ 10,787</u>
General Revenues				
Investment earnings				\$ 12,857
Miscellaneous				50,116
Total general revenues				<u>\$ 62,973</u>
Change in net assets				<u>\$ 73,760</u>
Net Assets - Beginning, as previously reported				\$ 594,688
Prior period adjustment (Note 1.E.)				19,179
Net Assets - Beginning, as restated				<u>\$ 613,867</u>
Net Assets - Ending				<u>\$ 687,627</u>

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2007**

	General Fund
<u>Assets</u>	
Cash and pooled investments	\$ 445,862
Due from other governments	85,371
	\$ 531,233
<u>Liabilities and Fund Balances</u>	
Liabilities	
Accounts payable	\$ 12,831
Salaries payable	5,165
Due to other governments	89,872
Deferred revenue - unearned	70,225
	\$ 178,093
Fund Balances	
Reserved for	
Donations	\$ 6,399
Unreserved	
Undesignated	346,741
	\$ 353,140
Total Liabilities and Fund Balances	\$ 531,233

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

Fund balances - total governmental fund (Exhibit 3)	\$ 353,140
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.	380,236
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental fund.	<u>(45,749)</u>
Net Assets of Governmental Activities (Exhibit 1)	<u><u>\$ 687,627</u></u>

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	General Fund
Revenues	
Licenses and permits	\$ 210,339
Intergovernmental	998,377
Charges for services	65,887
Gifts and contributions	3,000
Investment earnings	12,857
Miscellaneous	50,116
	\$ 1,340,576
Expenditures	
Current	
General government	\$ 42,022
Health	342,998
Intergovernmental	862,928
	\$ 1,247,948
Net Change in Fund Balance	\$ 92,628
Fund Balance - January 1, as previously reported	\$ 241,333
Restatement (Note 1.E.)	19,179
	\$ 260,512
Fund Balance - January 1, as restated	\$ 260,512
Fund Balance - December 31	\$ 353,140

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

Net change in fund balances - total governmental fund (Exhibit 5) \$ 92,628

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 - December 31	\$ -	
Deferred revenue - January 1	<u>(12,304)</u>	(12,304)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets and infrastructure	\$ 9,095	
Current year depreciation	<u>(19,179)</u>	(10,084)

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 governmental fund.

Change in compensated absences		<u>3,520</u>
--------------------------------	--	--------------

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 73,760

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

EXHIBIT 7

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Licenses and permits	\$ 200,538	\$ 200,538	\$ 210,339	\$ 9,801
Intergovernmental	1,041,749	1,067,838	998,377	(69,461)
Charges for services	59,704	63,404	65,887	2,483
Gifts and contributions	-	-	3,000	3,000
Investment earnings	6,000	6,000	12,857	6,857
Miscellaneous	44,939	44,939	50,116	5,177
Total Revenues	\$ 1,352,930	\$ 1,382,719	\$ 1,340,576	\$ (42,143)
Expenditures				
Current				
General government				
Administration	\$ 25,732	\$ 25,732	\$ 27,338	\$ (1,606)
Elixir building	17,691	17,691	14,684	3,007
Total general government	\$ 43,423	\$ 43,423	\$ 42,022	\$ 1,401
Health				
Environmental health	\$ 286,763	\$ 291,755	\$ 289,047	\$ 2,708
Family planning	62,000	72,000	53,951	18,049
Total health	\$ 348,763	\$ 363,755	\$ 342,998	\$ 20,757
Intergovernmental				
Brown County contract payments	\$ 291,904	\$ 295,993	\$ 334,397	\$ (38,404)
Nicollet County contract payments	294,291	308,291	327,054	(18,763)
Seven Mile Creek project	70,500	70,500	58,228	12,272
Children's water festival	6,659	6,659	3,260	3,399
Little Cottonwood River	64,000	64,000	73,315	(9,315)
McKnight Foundation	6,029	6,029	5,133	896
Water and Soil Resources Board				
Brown County	3,385	3,385	269	3,116
Nicollet County	3,431	3,431	1,780	1,651
Control drainage	22,888	22,888	28,169	(5,281)
Water drainage mapping project	640	640	657	(17)
Sediment finger printing	83,777	83,777	8,251	75,526
Conservation planning	618	618	618	-
Clean water legacy	25,000	25,000	11,542	13,458
Fish and wildlife	11,500	11,500	1,107	10,393
Middle Minnesota	67,430	67,430	9,148	58,282
Total intergovernmental	\$ 952,052	\$ 970,141	\$ 862,928	\$ 107,213
Total Expenditures	\$ 1,344,238	\$ 1,377,319	\$ 1,247,948	\$ 129,371

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

**EXHIBIT 7
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Net Change in Fund Balance	\$ 8,692	\$ 5,400	\$ 92,628	\$ 87,228
Fund Balance - January 1, as previously reported	\$ 241,333	\$ 241,333	\$ 241,333	\$ -
Restatement (Note 1.E.)	19,179	19,179	19,179	-
Fund Balance - January 1, as restated	\$ 260,512	\$ 260,512	\$ 260,512	\$ -
Fund Balance - December 31	\$ 269,204	\$ 265,912	\$ 353,140	\$ 87,228

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007

1. Summary of Significant Accounting Policies

The Brown-Nicollet Community Health Services' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2007. 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 Brown-Nicollet Community Health Services are discussed below.

A. Financial Reporting Entity

The Brown, Nicollet, Sibley Human Service Board was established pursuant to Minn. Stat. §§ 402.01-402.10. The pilot study program was started in April 1974. Brown, Nicollet, and Sibley Counties entered into a joint powers agreement (Minn. Stat. § 471.59) effective July 1, 1975. Sibley County was granted permission to withdraw from the Human Service Board effective July 1, 1976.

On January 1, 1991, the Human Service Board was legally reorganized into the Brown-Nicollet Community Health Services. The organization functions as a community health service organization. It is governed by the ten County Commissioners of Brown and Nicollet Counties. Management consists of an administrator, an environmental health director, and the nursing directors from Brown and Nicollet Counties.

Nicollet County reports the financial activities of the Brown-Nicollet Community Health Services in an agency fund on its annual financial statements. The Health Services follows the accounting and personnel policies of Nicollet County.

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government, and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of each function of Brown-Nicollet Community Health Services' activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, licenses, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational requirements of a particular function or activity. Revenues not classified as program revenues are presented as general revenues.

2. Fund Financial Statements

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.

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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 Brown-Nicollet Community Health Services considers all revenues as available if collected within 60 days after the end of the current period. Charges for services and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on 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.

When both restricted and unrestricted resources are available for use, it is the Brown-Nicollet Community Health Services' policy to use restricted resources first and then unrestricted resources as needed.

D. Assets and Liabilities

1. Cash

Cash is on deposit with Nicollet County.

2. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Brown-Nicollet Community Health Services as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets and Liabilities

2. Capital Assets (Continued)

Capital assets of the Brown-Nicollet Community Health Services are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Machinery and equipment	5

3. Compensated Absences

It is the Brown-Nicollet Community Health Services' policy to permit employees to accumulate earned but unused vacation, compensatory time, and sick pay benefits. Unused vacation, compensatory time, and vested sick leave are paid to employees upon termination. Unvested sick leave is available to employees in the event of illness-related absences and is not paid to employees upon termination. The liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The government-wide statement of net assets reports both current and noncurrent portions of compensated absences using full accrual accounting. The current portion consists of all vacation, compensatory time, and 25 percent of total vested sick leave. The noncurrent portion consists of 75 percent of total vested sick leave.

4. Deferred Revenue

Governmental funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets and Liabilities (Continued)

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.

E. Restatement of Fund Balance/Net Assets

At January 1, 2007, fund balance and net assets were restated by \$19,179 to correct errors in recording unearned deferred revenues.

2. Stewardship, Compliance, and Accountability

Budgetary Data

The Brown-Nicollet Community Health Services adopts an annual budget on a basis consistent with generally accepted accounting principles. This budget is approved by the Brown-Nicollet Community Health Services Board. Comparisons of estimated revenues and expenditures are presented in the financial statements.

3. Detailed Notes

A. Assets

1. Deposits and Investments

Cash transactions are administered by the Nicollet County Auditor/Treasurer who is, according to Minn. Stat. §§ 118A.02 and 118A.04, authorized to deposit cash in financial institutions designated by the County Board. Minn. Stat. §§ 118A.04 and 118A.05 authorize the types of investments available to the County. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

3. Detailed Notes

A. Assets (Continued)

2. Receivables

The Brown-Nicollet Community Health Services did not have any receivables not expected to be collected within the year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 41,063	\$ -	\$ -	\$ 41,063
Capital assets depreciated				
Buildings and improvements	\$ 643,625	\$ -	\$ -	\$ 643,625
Machinery, furniture, and equipment	12,567	9,095	-	21,662
Total capital assets depreciated	\$ 656,192	\$ 9,095	\$ -	\$ 665,287
Less: accumulated depreciation for				
Buildings	\$ 298,177	\$ 16,091	\$ -	\$ 314,268
Machinery, furniture, and equipment	8,758	3,088	-	11,846
Total accumulated depreciation	\$ 306,935	\$ 19,179	\$ -	\$ 326,114
Total capital assets depreciated, net	\$ 349,257	\$ (10,084)	\$ -	\$ 339,173
Capital Assets, Net	\$ 390,320	\$ (10,084)	\$ -	\$ 380,236

Depreciation expense was charged to functions/programs of the government as follows:

Governmental Activities	
General government	\$ 16,091
Health	3,088
	<u>19,179</u>
Total Depreciation Expense	<u>\$ 19,179</u>

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

3. Detailed Notes (Continued)

B. Liabilities

1. Operating Leases

The Brown-Nicollet Community Health Services has entered into an operating lease for its current office space effective through December 31, 2009. This lease is expected to continue or be replaced with similar leases. Total lease payments for the year ended December 31, 2007, were \$15,375. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2008	\$ 12,000
2009	12,000
Total Lease	\$ 24,000

2. Long-Term Liabilities

Changes in compensated absences payable for 2007 were:

January 1	\$ 49,269
Net decrease	(3,520)
December 31	\$ 45,749
Due within one year	(23,114)
Long-Term Portion	\$ 22,635

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

4. Intergovernmental Revenue

The Brown-Nicollet Community Health Services received the following state, federal, and local grants for the year ended December 31, 2007, which are shown as General Fund intergovernmental revenue in Exhibit 5.

Reimbursement for services		
Minnesota Department of Human Services	\$	32,370
State revenue		
Water and Soil Resources Board		11,542
Minnesota Department of Health		273,993
Minnesota Pollution Control Agency		198,252
Minnesota Department of Human Services		32,370
Federal revenue		
Women, Infants, and Children		221,544
Immunization Grants		1,200
Center for Disease Control and Prevention (Bio-Terrorism Grant)		101,315
Temporary Assistance for Needy Families		57,568
Maternal and Child Health		63,542
Local revenue		
McKnight Foundation		4,681
		<hr/>
Total Intergovernmental Revenue	\$	<u>998,377</u>

5. Risk Management

The Brown-Nicollet Community Health Services 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 Health Services has entered into a joint powers agreement with certain Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT) to cover its workers' compensation and property and casualty liabilities.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$400,000 per claim in 2007 and \$410,000 per claim in 2008. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Health Services in a method and amount to be determined by MCIT.

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

5. Risk Management (Continued)

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

The Brown-Nicollet Community Health Services Board has not reduced insurance coverage in the past year and has not had settlements in excess of insurance coverage in any of the past three years.

6. Pension Plans

A. Plan Description

All full-time and certain part-time employees of the Brown-Nicollet Community Health Services 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 retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

6. Pension Plans

A. Plan Description (Continued)

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. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The Health Services 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 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2007 to 6.00 percent.

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

6. Pension Plans

B. Funding Policy (Continued)

The Health Services is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

	<u>2007</u>	<u>2008</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50

The Health Services' contributions for the years ending December 31, 2007, 2006, and 2005, were \$15,331, \$14,376, and \$11,682 respectively, equal to the contractually required contributions for each year as set by state statute.

This page was left blank intentionally.

This page was left blank intentionally.

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES
ST. PETER, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007**

I. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-1 Preparation of Financial Statements

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

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

We recommend that the Brown-Nicollet Community Health Services continue to obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP.

Client's Response:

We will continue to work with the Office of the State Auditor's staff to prepare and better understand the use of required spreadsheets by preparing the Cash Transaction Spreadsheet and the Budget Spreadsheets.

06-2 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the Health Services' internal controls. During our audit, we proposed the following adjustments that resulted in significant changes to the Health Services' financial statements.

- Adjustments were made to reclassify various intergovernmental revenues totaling \$87,801.

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

We recommend that the Brown-Nicollet Community Health Services modify internal controls over financial reporting to detect misstatements in the financial statements. We encourage review of draft financial statements and supporting documentation by a qualified individual to identify potential misstatements.

Client's Response:

As we better understand the use of the required spreadsheets we will continue to make improvements and have fewer audit adjustments.

II. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statement, accounting for OPEB is now similar to the accounting used by governments for pension plans.

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

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

Some of the issues that the Health Services Board will need to address in order to comply with the statement are:

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

If applicable for the Brown-Nicollet Community Health Services, GASB Statement 45 would be implemented for the year ended December 31, 2009.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Health Services Board
Brown-Nicollet Community Health Services

Internal Control Over Financial Reporting

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be 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 the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 06-1 and 06-2 to be significant deficiencies in internal control over financial reporting.

Minnesota Legal Compliance

We have audited the financial statements of the governmental activities and the General Fund of the Brown-Nicollet Community Health Services as of and for the year ended December 31, 2007, which collectively comprise the Health Services' basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

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

Also included in the Schedule of Findings and Recommendations is an "other item for consideration." We believe this information to be of benefit to the Brown-Nicollet Community Health Services and it is reported for that purpose.

Brown-Nicollet Community Health Services' written responses to the significant deficiencies identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Health Services' responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

February 12, 2009