

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

**YEAR ENDED DECEMBER 31, 2010**

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

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

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

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

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

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

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

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

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

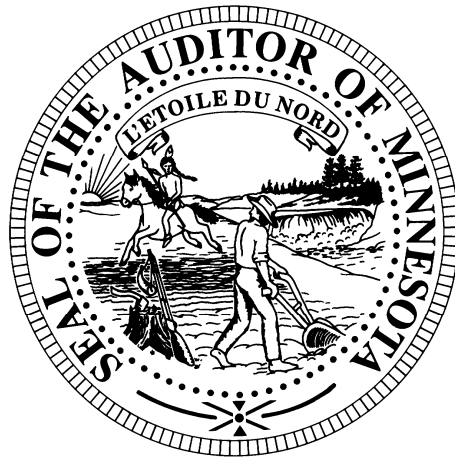
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

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

**Year Ended December 31, 2010**



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

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

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

**ORGANIZATION  
2010**

<u>Office</u>	<u>Name</u>
Board Members	
Brown County Commissioners	
Vice Chair	James Berg
Member	Vacant*
Treasurer	Andrew Lochner
Member	Dennis Potter
Member	Richard Seeboth
Nicollet County Commissioners	
Member	Bruce Beatty
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	Karen Moritz Brown County Nursing Director
Co-Director	Julie Carroll Nicollet County Nursing Director

\* - Position filled by Commissioner Scott Windschitl starting February 2011

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Health Services Board  
Brown-Nicollet Community Health Services

We have audited the accompanying financial statements of the governmental activities and each major fund of Brown-Nicollet Community Health Services as of and for the year ended December 31, 2010, which collectively comprise the Health Services' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Brown-Nicollet Community 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Brown-Nicollet Community Health Services as of December 31, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund and Water Quality Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Brown-Nicollet Community Health Services' basic financial statements as a whole. The supplementary information, which is the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 27, 2011, on our consideration of Brown-Nicollet Community Health Services' 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 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

June 27, 2011

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010  
(Unaudited)**

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, 2010. We encourage readers to consider the information presented here.

**FINANCIAL HIGHLIGHTS**

- On December 31, 2010, our total assets were \$1,093,232, and our total liabilities were \$376,645. We showed net assets of \$716,587, of which \$354,608 is invested in capital assets.
- Our income is mainly state and federal grants, fees from our licensing program, and rental income.
- 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 level 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, and 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 individual funds of Brown-Nicollet Community Health Services--not the Health Services as a whole. The Health Services reports two funds--the General Fund and the Water Quality Special Revenue Fund--both of which are considered governmental funds.

The focus of governmental fund presentation is how money flows into and out of the funds and balances left at year-end that are available for spending. Governmental funds use the modified accrual method of accounting, which measures cash and all other financial assets that can be readily converted to cash. The fund statements provide a detailed short-term view of the Health Services' operations and the basic services it provides. 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 the funds 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 8.

## **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 \$716,587.

**Table 1  
Governmental Net Assets**

	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 738,624	\$ 574,460
Capital assets	<u>354,608</u>	<u>384,798</u>
Total Assets	\$ 1,093,232	\$ 959,258
Current liabilities	\$ 333,672	\$ 250,976
Long-term liabilities	<u>42,973</u>	<u>45,620</u>
Total Liabilities	\$ 376,645	\$ 296,596
Net Assets		
Invested in capital assets	\$ 354,608	\$ 384,798
Restricted for health	6,079	6,489
Unrestricted	<u>355,900</u>	<u>271,375</u>
Total Net Assets	\$ <u>716,587</u>	\$ <u>662,662</u>

The Health Services' net assets increased by \$53,925, or eight percent, from \$662,662 to \$716,587.

Current assets and current liabilities increased from the prior year. Both increases are partially due to cash advanced from other governments for the Statewide Health Improvement Program (SHIP). Capital assets decreased slightly due to the removal of all Water Quality equipment and depreciation expense incurred. The Health Services' long-term liabilities, which consist of compensated absences, remained relatively unchanged from the prior year.

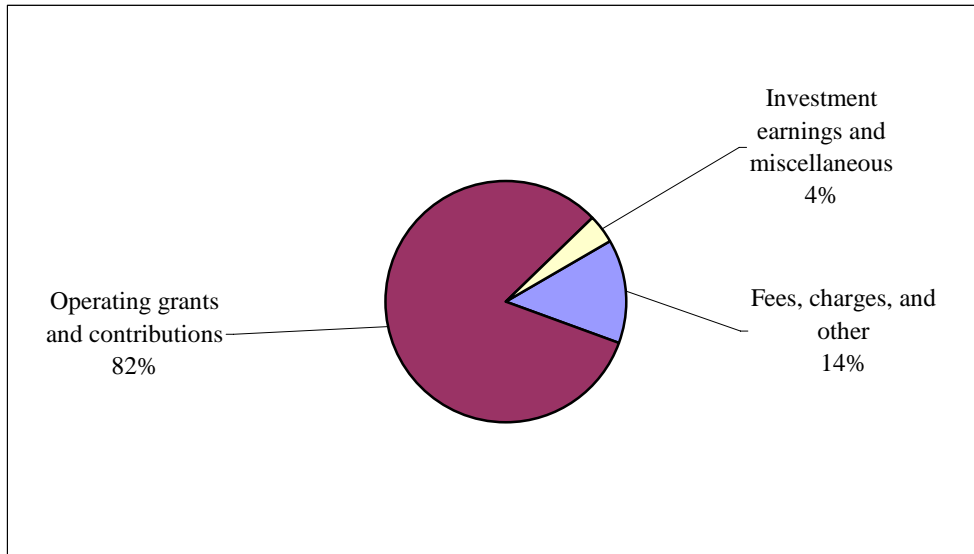
**Table 2  
Changes in Net Assets**

	<u>2010</u>	<u>2009</u>
Revenues		
Program revenues		
Fees, charges, and other	\$ 238,060	\$ 283,377
Operating grants and contributions	1,360,946	1,119,521
General revenues		
Investment earnings	4,210	5,733
Miscellaneous	<u>50,992</u>	<u>47,031</u>
Total Revenues	\$ <u>1,654,208</u>	\$ <u>1,455,662</u>

	<u>2010</u>	<u>2009</u>
Expenses		
Program expenses		
General government	\$ 61,310	\$ 51,696
Health	<u>1,538,973</u>	<u>1,410,893</u>
Total Expenses	<u>\$ 1,600,283</u>	<u>\$ 1,462,589</u>
Increase (Decrease) in Net Assets	\$ 53,925	\$ (6,927)
Net Assets - January 1	<u>662,662</u>	<u>669,589</u>
Net Assets - December 31	<u><u>\$ 716,587</u></u>	<u><u>\$ 662,662</u></u>

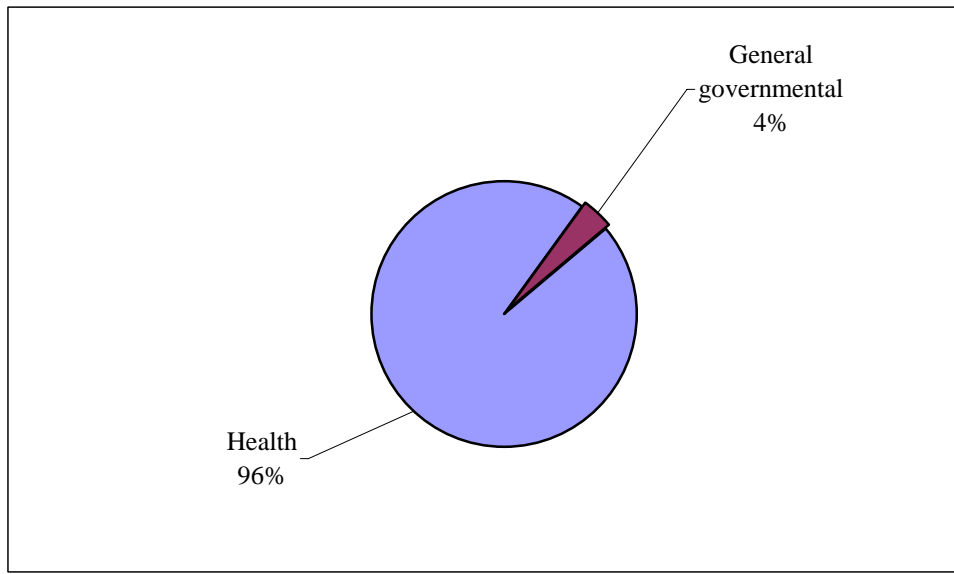
Our largest revenues were from licenses and permits and intergovernmental sources. The total increase in revenue of \$198,546 is due in most part to various new grants, both federal and state.

#### 2010 Revenues



Expenses increased \$137,694, with large increases in SHIP-related expenses and intergovernmental payments. SHIP expenses increased because 2010 was the first full year of the program resulting in increased salaries, professional services, and other program expenses. Intergovernmental payments increased because of payments to Brown and Nicollet Counties for various pass-through grants.

### 2010 Expenses



### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The Health Services uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Health Services' governmental funds 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.

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

There were no revised budgets in 2010. Both revenues and expenditures were relatively close to the budgeted amounts. The differences that did occur are due in part to pass thru funds.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

Our capital assets decreased by \$30,190 as a result of removal of all water quality equipment and depreciation expense.

**Table 3**  
**Capital Assets**  
**(Net of Depreciation)**

	<u>2010</u>	<u>2009</u>
Capital Assets		
Land	\$ 41,063	\$ 41,063
Building	313,545	330,490
Machinery, furniture, and equipment	-	13,245
	<u>354,608</u>	<u>384,798</u>
Capital Assets, Net	<u>\$ 354,608</u>	<u>\$ 384,798</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' Board is both state and federal budget-responsive. The Board 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 Minnesota Board of Water and Soil Resources 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, as there was no change in fees for 2011.

The 2011 budgets will show no income for any water quality projects; in 2010, the Brown-Nicollet-Cottonwood Water Quality Board dissolved due to lack of funding. All grants were completed; some funds were carried over to cover unemployment, insurance, audit expenses, and basic expenses for the next four years. At the end of 2014, any fund balance remaining in the Water Quality Fund will be dispersed between Brown, Nicollet, and Cottonwood Counties.

## **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.

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

*EXHIBIT 1*

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2010**

	<u><b>Governmental Activities</b></u>
<b><u>Assets</u></b>	
Cash and pooled investments	\$ 650,731
Accounts receivable - net	218
Due from other governments	87,675
Capital assets	
Non-depreciable	41,063
Depreciable assets - net	313,545
	\$ 1,093,232
<b><u>Liabilities</u></b>	
Accounts payable	\$ 8,804
Salaries payable	4,330
Due to other governments	116,299
Unearned revenue	132,660
Advance from other governments	71,579
Long-term liabilities	
Due within one year	21,074
Due in more than one year	21,899
	\$ 376,645
<b><u>Net Assets</u></b>	
Invested in capital assets	\$ 354,608
Restricted for health	6,079
Unrestricted	355,900
	\$ 716,587

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

*EXHIBIT 2*

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Expenses</u>	<u>Program Revenues</u> Fees, Charges, and Other	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<b><u>Functions/Programs</u></b>				
<b>Primary government</b>				
<b>Governmental activities</b>				
General government	\$ 61,310	\$ -	\$ 8,530	\$ (52,780)
Health	<u>1,538,973</u>	<u>238,060</u>	<u>1,352,416</u>	<u>51,503</u>
<b>Total Primary Government</b>	<b><u>\$ 1,600,283</u></b>	<b><u>\$ 238,060</u></b>	<b><u>\$ 1,360,946</u></b>	<b><u>\$ (1,277)</u></b>
 <b>General Revenues</b>				
Investment earnings				\$ 4,210
Miscellaneous				<u>50,992</u>
<b>Total general revenues</b>				<b><u>\$ 55,202</u></b>
<b>Change in net assets</b>				<b>\$ 53,925</b>
<b>Net Assets - January 1</b>				<b><u>662,662</u></b>
<b>Net Assets - December 31</b>				<b><u>\$ 716,587</u></b>

**FUND FINANCIAL STATEMENTS**

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

*EXHIBIT 3*

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2010**

	<u>General</u>	<u>Water Quality</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 591,479	\$ 59,252	\$ 650,731
Accounts receivable	218	-	218
Due from other governments	87,675	-	87,675
<b>Total Assets</b>	<b><u>\$ 679,372</u></b>	<b><u>\$ 59,252</u></b>	<b><u>\$ 738,624</u></b>
 <b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 8,707	\$ 97	\$ 8,804
Salaries payable	4,330	-	4,330
Due to other governments	109,500	6,799	116,299
Deferred revenue - unearned	130,266	2,394	132,660
Advance from other governments	71,579	-	71,579
<b>Total Liabilities</b>	<b><u>\$ 324,382</u></b>	<b><u>\$ 9,290</u></b>	<b><u>\$ 333,672</u></b>
<b>Fund Balances</b>			
Reserved for Donations	\$ -	\$ 6,079	\$ 6,079
Unreserved Undesignated	354,990	43,883	398,873
<b>Total Fund Balances</b>	<b><u>\$ 354,990</u></b>	<b><u>\$ 49,962</u></b>	<b><u>\$ 404,952</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 679,372</u></b>	<b><u>\$ 59,252</u></b>	<b><u>\$ 738,624</u></b>

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

***EXHIBIT 4***

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2010**

<b>Fund balances - total governmental fund (Exhibit 3)</b>	<b>\$ 404,952</b>
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.	354,608
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental fund.	<u>(42,973)</u>
<b>Net Assets of Governmental Activities (Exhibit 1)</b>	<b><u><u>\$ 716,587</u></u></b>

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

*EXHIBIT 5*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>General</u>	<u>Water Quality</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Licenses and permits	\$ 217,441	\$ -	\$ 217,441
Intergovernmental	1,189,882	168,464	1,358,346
Charges for services	20,619	-	20,619
Gifts and contributions	-	2,600	2,600
Investment earnings	3,873	337	4,210
Miscellaneous	49,603	1,389	50,992
<b>Total Revenues</b>	<b>\$ 1,481,418</b>	<b>\$ 172,790</b>	<b>\$ 1,654,208</b>
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 36,141	\$ -	\$ 36,141
Health	579,343	165,087	744,430
<b>Intergovernmental</b>	<b>792,169</b>	<b>-</b>	<b>792,169</b>
<b>Total Expenditures</b>	<b>\$ 1,407,653</b>	<b>\$ 165,087</b>	<b>\$ 1,572,740</b>
<b>Net Change in Fund Balance</b>	<b>\$ 73,765</b>	<b>\$ 7,703</b>	<b>\$ 81,468</b>
<b>Fund Balance - January 1</b>	<b>281,225</b>	<b>42,259</b>	<b>323,484</b>
<b>Fund Balance - December 31</b>	<b>\$ 354,990</b>	<b>\$ 49,962</b>	<b>\$ 404,952</b>

**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 FUNDS  
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**Net change in fund balances - total governmental fund (Exhibit 5) \$ 81,468**

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

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. Also, in the statement of activities, only the gain or loss on the disposal of assets is reported; whereas, in the governmental funds, any proceeds from sales increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets disposed.

Current year depreciation	\$ (21,966)	
Net book value of assets disposed	<u>(8,224)</u>	(30,190)

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>2,647</u>
--------------------------------	--	--------------

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 53,925**

**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, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Licenses and permits	\$ 220,823	\$ 220,823	\$ 217,441	\$ (3,382)
Intergovernmental	1,115,074	1,115,074	1,189,882	74,808
Charges for services	24,650	24,650	20,619	(4,031)
Investment earnings	3,300	3,300	3,873	573
Miscellaneous	49,129	49,129	49,603	474
<b>Total Revenues</b>	<b>\$ 1,412,976</b>	<b>\$ 1,412,976</b>	<b>\$ 1,481,418</b>	<b>\$ 68,442</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Administration	\$ 24,298	\$ 24,298	\$ 24,973	\$ (675)
Elixir Building	18,920	18,920	11,168	7,752
<b>Total general government</b>	<b>\$ 43,218</b>	<b>\$ 43,218</b>	<b>\$ 36,141</b>	<b>\$ 7,077</b>
<b>Health</b>				
Environmental health	\$ 285,890	\$ 285,890	\$ 246,739	\$ 39,151
Family planning	91,481	91,481	96,612	(5,131)
Statewide health implementation plan	241,000	241,000	235,992	5,008
<b>Total health</b>	<b>\$ 618,371</b>	<b>\$ 618,371</b>	<b>\$ 579,343</b>	<b>\$ 39,028</b>
<b>Intergovernmental</b>				
Brown County contract payments	\$ 362,876	\$ 362,876	\$ 394,901	\$ (32,025)
Nicollet County contract payments	362,123	362,123	397,268	(35,145)
<b>Total intergovernmental</b>	<b>\$ 724,999</b>	<b>\$ 724,999</b>	<b>\$ 792,169</b>	<b>\$ (67,170)</b>
<b>Total Expenditures</b>	<b>\$ 1,386,588</b>	<b>\$ 1,386,588</b>	<b>\$ 1,407,653</b>	<b>\$ (21,065)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 26,388</b>	<b>\$ 26,388</b>	<b>\$ 73,765</b>	<b>\$ 47,377</b>
<b>Fund Balance - January 1</b>	<b>281,225</b>	<b>281,225</b>	<b>281,225</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 307,613</b>	<b>\$ 307,613</b>	<b>\$ 354,990</b>	<b>\$ 47,377</b>

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

*EXHIBIT 8*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGETARY COMPARISON  
WATER QUALITY SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 168,874	\$ 168,874	\$ 168,464	\$ (410)
Gifts and contributions	2,000	2,000	2,600	600
Investment earnings	-	-	337	337
Miscellaneous	800	800	1,389	589
<b>Total Revenues</b>	<b>\$ 171,674</b>	<b>\$ 171,674</b>	<b>\$ 172,790</b>	<b>\$ 1,116</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Health</b>				
Little Cottonwood River	\$ 10,754	\$ 10,754	\$ -	\$ 10,754
Seven Mile Creek project	27,903	27,903	-	27,903
Children's water festival	4,700	4,700	3,027	1,673
Sediment finger printing	28,437	28,437	28,237	200
Middle Minnesota	103,298	103,298	106,607	(3,309)
Control drainage	189	189	50	139
Clean water legacy	53	53	53	-
Fish and wildlife	10,393	10,393	4,000	6,393
Challenge solar grant	12,661	12,661	3,065	9,596
Agricultural watershed restoration	20,680	20,680	1,531	19,149
Surface water assessment grant	29,470	29,470	18,517	10,953
<b>Total Expenditures</b>	<b>\$ 248,538</b>	<b>\$ 248,538</b>	<b>\$ 165,087</b>	<b>\$ 83,451</b>
<b>Net Change in Fund Balance</b>	<b>\$ (76,864)</b>	<b>\$ (76,864)</b>	<b>\$ 7,703</b>	<b>\$ 84,567</b>
<b>Fund Balance - January 1</b>	<b>42,259</b>	<b>42,259</b>	<b>42,259</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ (34,605)</b>	<b>\$ (34,605)</b>	<b>\$ 49,962</b>	<b>\$ 84,567</b>

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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010

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1. Summary of Significant Accounting Policies

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, 2010. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board 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 Brown-Nicollet Community Health Services are discussed below.

A. Financial Reporting Entity

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 Brown-Nicollet Community Health Services. The organization functions as a community health service organization. As required by accounting principles generally accepted in the United States of America, these financial statements present Brown-Nicollet Community Health Services (primary government) and its component unit for which the Health Services is financially accountable. The Health Services 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 Brown-Nicollet Community Health Services and its component unit 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**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Blended Component Unit

Blended component units are legally separate organizations so intertwined with the Health Services that they are, in substance, the same as the Health Services and, therefore, are reported as if they were part of the Health Services. Brown-Nicollet Community Health Services has one blended component unit.

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Brown-Nicollet-Cottonwood Water Quality Board	There is close financial integration between the two entities. Its exclusion would render the financial statements incomplete.	Separate financial statements are not prepared.

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 its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities.

In the government-wide statement of net assets, the governmental activities column is 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: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets.



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

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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 fund financial statements provide information about the Health Services' funds. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as a separate column in the fund financial statements.

The Health Services reports the following major funds:

The General Fund is the Health Services' primary operating fund. It accounts for all financial resources of the government, except those of the Water Quality Board.

The Water Quality Special Revenue Fund is used to account for the financial resources of the Brown-Nicollet-Cottonwood Water Quality Board (WQB), which is considered a blended component unit of Brown-Nicollet Community Health Services. Due to decreases in funding at the state and federal level for appropriate water quality projects and the uncertainty of future funding, the WQB is dissolving effective December 31, 2010. From January 1, 2011, through December 31, 2014, any legitimate WQB claims and receipts will be processed by Brown-Nicollet Community Health Services. At December 31, 2014, all valid WQB claims and remaining property or funds will be distributed equally between member counties. These remaining WQB assets and liabilities are estimated to be insignificant to Brown-Nicollet Community Health Services.

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

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1. Summary of Significant Accounting Policies (Continued)

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. 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 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 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.

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

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1. Summary of Significant Accounting Policies

D. Assets and Liabilities

2. Capital Assets (Continued)

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.

Capital assets of 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 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**

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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.

2. Stewardship, Compliance, and Accountability

A. Budgetary Data

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.

B. Excess of Expenditures Over Budget

The General Fund had expenditures in excess of budget for the year ended December 31, 2010.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	<u>\$ 1,407,653</u>	<u>\$ 1,386,588</u>	<u>\$ 21,065</u>

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

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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. The types of investments available to the County are authorized by Minn. Stat. §§ 118A.04 and 118A.05. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

2. Receivables

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, 2010, 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	\$ 677,792	\$ -	\$ -	\$ 677,792
Machinery, furniture, and equipment	37,673	-	31,453	6,220
Total capital assets depreciated	\$ 715,465	\$ -	\$ 31,453	\$ 684,012
Less: accumulated depreciation for				
Buildings and improvements	\$ 347,302	\$ 16,945	\$ -	\$ 364,247
Machinery, furniture, and equipment	24,428	5,021	23,229	6,220
Total accumulated depreciation	\$ 371,730	\$ 21,966	\$ 23,229	\$ 370,467
Total capital assets depreciated, net	\$ 343,735	\$ (21,966)	\$ 8,224	\$ 313,545
Total Capital Assets, Net	<u>\$ 384,798</u>	<u>\$ (21,966)</u>	<u>\$ 8,224</u>	<u>\$ 354,608</u>

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

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3. Detailed Notes

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	16,945
Health		5,021
Total Depreciation Expense	\$	21,966

B. Liabilities

1. Operating Leases

Brown-Nicollet Community Health Services has entered into an operating lease for its current office space effective through December 31, 2015. The lease is expected to continue or be replaced with a similar lease. Total lease payments for the year ended December 31, 2010, were \$14,640. The future minimum lease payments are as follows:

Year Ending December 31	Amount
2011	\$ 13,200
2012	13,200
2013	13,200
2014	13,200
2015	13,200
Total Lease	\$ 66,000

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

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3. Detailed Notes

B. Liabilities (Continued)

2. Long-Term Liabilities

Changes in compensated absences payable for 2010 were:

January 1	\$	45,620
Net decrease		(2,647)
December 31	\$	42,973
Due within one year		(21,074)
Long-Term Portion	\$	21,899

4. Intergovernmental Revenue

Brown-Nicollet Community Health Services received the following state, federal, and local grants for the year ended December 31, 2010, which are shown as intergovernmental revenue in Exhibit 5.

State revenue		
Minnesota Board of Water and Soil Resources	\$	6,794
Minnesota Department of Health		550,915
Minnesota Pollution Control Agency		129,581
Minnesota Department of Human Services		50,395
Total state revenue	\$	737,685
Federal revenue		
Special Supplemental Nutrition Program for Women, Infants, and Children	\$	258,632
Partners for Fish and Wildlife		4,000
Nonpoint Source Implementation Grants		28,089
Public Health Emergency Preparedness		124,597
Universal Newborn Hearing Screening		450
Centers for Disease Control and Prevention - Investigations and Technical Assistance		24,256
Temporary Assistance for Needy Families		60,087
ARRA - Immunization		7,161
Medical Assistance Program		50,394
Maternal and Child Health Services Block Grant to the States		62,995
Total federal revenue	\$	620,661
Total Intergovernmental Revenue	\$	1,358,346

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

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5. Risk Management

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 Intergovernmental Trust (MCIT). The Health Services is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions.

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 \$450,000 per claim in 2010 and 2011. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Health Services in a method and amount to be determined by MCIT.

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

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 Brown-Nicollet Community Health Services are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.



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

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6. Pension Plans

A. Plan Description (Continued)

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

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

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

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

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

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

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6. Pension Plans

A. Plan Description (Continued)

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

B. Funding Policy

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

The Health Services is required to contribute the following percentages of annual covered payroll in 2010:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00

The Health Services' contributions for the years ending December 31, 2010, 2009, and 2008, were \$15,687, \$14,816, and \$15,968, respectively, equal to the contractually required contributions for each year as set by state statute.

**SUPPLEMENTARY INFORMATION**

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

*EXHIBIT A-1*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ <u>258,632</u>
<b>U.S. Department of the Interior</b>		
Direct Partners for Fish and Wildlife	15.631	\$ <u>4,000</u>
<b>U.S. Environmental Protection Agency</b>		
Passed Through Minnesota Pollution Control Agency Nonpoint Source Implementation Grants	66.460	\$ <u>28,089</u>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	\$ 124,597
Universal Newborn Hearing Screening	93.251	450
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	24,256
Temporary Assistance for Needy Families	93.558	60,087
ARRA - Immunization	93.712	7,161
Maternal and Child Health Services Block Grant to the States	93.994	62,995
Passed Through Minnesota Department of Human Services Medical Assistance Program	93.778	<u>50,394</u>
<b>Total U.S. Department of Health and Human Services</b>		\$ <u>329,940</u>
<b>Total Federal Awards</b>		\$ <u><u>620,661</u></u>

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Brown-Nicollet Community Health Services. The Health Services' reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Brown-Nicollet Community Health Services under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Brown-Nicollet Community Health Services, it is not intended to and does not present the financial position or changes in net assets of Brown-Nicollet Community Health Services.

3. Summary of Significant Accounting Policies

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

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

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4. Subrecipients

Of the expenditures presented in the schedule, Brown-Nicollet Community Health Services provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$ 258,632
93.069	Public Health Emergency Preparedness	124,597
93.251	Universal Newborn Hearing Screening	450
93.283	Centers for Disease Control and Prevention	24,256
93.558	Temporary Assistance for Needy Families	60,087
93.712	ARRA - Immunization	7,161
93.778	Medical Assistance Program	50,394
93.994	Maternal and Child Health Services Block Grant to the States	62,995
	Total	<u>\$ 588,572</u>

5. American Recovery and Reinvestment Act

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





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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

- A. Our report expresses unqualified opinions on the basic financial statements of Brown-Nicollet Community Health Services.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Brown-Nicollet Community Health Services and are 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*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Brown-Nicollet Community Health Services were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Brown-Nicollet Community Health Services 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 (WIC)	CFDA #10.557
Public Health Emergency Preparedness	CFDA #93.069
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Brown-Nicollet Community Health Services 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 ITEMS NOT RESOLVED

##### 06-1 Preparation of Financial Statements

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.

The Health Services prepares cash transaction summaries and most of the year-end accrual information but does not have the technical knowledge to complete the financial statements. 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 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 OSA to acquire the knowledge necessary to prepare annual financial statements.*

##### 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 entity's internal controls. During our audit, we proposed audit adjustments, which were reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

We recommend that Brown-Nicollet Community Health Services continue its efforts in reducing the audit entries by establishing review procedures for the draft financial statements and supporting documentation.

Client's Response:

*As we become more familiar with the use of the State Payment Transaction Spreadsheets, we will continue to make improvements, which will lead to fewer audit adjustments.*

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Brown-Nicollet Community Health Services for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

The Health Services should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The Health Services can start with the following steps:

- review the requirements of GASB Statement 54;
- review current fund balances and compare to the new classifications;
- reclassify January 1, 2011, fund balance using the new classifications;
- review/update/prepare a comprehensive fund balance policy;
- prepare appropriate Board resolutions to commit fund balance; and
- if the Health Services intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

#### Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in the new standard. The new definition for a special revenue fund could have significant impact on the Health Services' current fund classifications.

GASB Statement 54 provides a new and clearer description of when it is appropriate to account for an activity using a special revenue fund. Special revenue funds are used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects, where the restricted or committed revenue sources comprise a substantial portion of the fund's resources, and are expected to continue to do so in the future. The standard does not define substantial portion; however, most recommendations are generally that the restricted or committed revenues should comprise at least 35 to 50 percent of total fund revenues. Under this definition, it is possible that the current special revenue fund will no longer meet the requirements for special revenue fund treatment. The Health Services' management should review the Health Services' special revenue fund to ensure it will continue to warrant treatment as a special revenue fund.

The Health Services' management should perform the following steps prior to December 31, 2011:

- determine the sources of revenues for the special revenue fund;
- identify whether any of those revenues are restricted or committed;
- determine if these restricted or committed revenues represent a substantial portion of the fund's revenues and are expected to continue to be a substantial source of revenues;
  - if yes, the fund may continue to be classified as a special revenue fund;
  - if not, the fund should be combined with the general fund;
- code revenues in the general ledger by source constraints--restricted, committed, assigned, or unassigned; and
- determine if there needs to be a restatement of beginning fund balances.

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, such as, detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at:

[http://www.auditor.state.mn.us/other/Statements/fundbalances\\_postGASB54\\_1012\\_state ment.pdf](http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_state ment.pdf).

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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***

Health Services Board  
Brown-Nicollet Community Health Services

We have audited the financial statements of the governmental activities and each major fund of Brown-Nicollet Community Health Services as of and for the year ended December 31, 2010, which collectively comprise the Health Services' basic financial statements, and have issued our report thereon dated June 27, 2011. 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 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 deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Health Services' financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 06-1 and 06-2, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

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

### Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness because Brown-Nicollet Community Health Services has no public debt.

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 Questioned Costs is an other item for consideration. We believe this information to be of benefit to the Health Services, and we are reporting it for that purpose.

Brown-Nicollet Community Health Services' written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs.

We did not audit the Brown-Nicollet Community 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, others within Brown-Nicollet Community Health Services, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 27, 2011

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

Health Services Board  
Brown-Nicollet Community Health Services

#### Compliance

We have audited Brown-Nicollet Community Health Services' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. Brown-Nicollet Community Health Services' 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 Health Services' management. Our responsibility is to express an opinion on the Health Services' 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 Brown-Nicollet Community Health Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Health Services' compliance with those requirements.

In our opinion, Brown-Nicollet Community Health Services complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

### Internal Control Over Compliance

Management of Brown-Nicollet Community Health Services 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 Health Services' internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Health Services' internal control over compliance.

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

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

This report is intended solely for the information and use of the Health Services Board, management and others within the Health Services, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 27, 2011