

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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

YEAR ENDED DECEMBER 31, 2004

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

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

**Tax Increment Financing, Investment and Finance** - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

**Year Ended December 31, 2004**



**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  
2004

Office	Name
Board Members	
Brown County Commissioners	
Chair	Donald Wellner
Treasurer	Andrew Lochner
Member	Richard Seeboth
Member	James Berg
Member	Charles Guggisberg
Nicollet County Commissioners	
Vice Chair	Jack Kolars
Secretary	James Stenson
Member	Judy Hanson
Member	Dr. David Dehen
Member	Paul Engel
Fiscal Administrator	Robert Bruns
Management Team	
Co-Director	Karen Swenson Environmental Director
Co-Director	Anita Hoffmann Brown County Nursing Director
Co-Director	Nita Aasen Nicollet County Nursing Director

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# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON  
STATE AUDITOR

### 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, 2004, 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, 2004, and the results of its operations and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, the Brown-Nicollet Community Health Services adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in format and content of the basic financial statements.

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/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: October 27, 2005

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2004  
(Unaudited)**

The Brown-Nicollet Community Health Services' Management's Discussion and Analysis (MD&A) provides an overview of the Board's financial activities for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here.

**FINANCIAL HIGHLIGHTS**

- On December 31, 2004, our total assets were \$749,585, and our total liabilities were \$236,000. We showed net assets of \$513,585, of which \$419,937 is invested in capital assets, net of related debt.
- 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:

Government-wide financial statements

Fund financial statements, and

Notes to the financial statements

The government-wide financial data and the fund financial data are reported in the same 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 the 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 (reported in the first column of Exhibits 1 and 2) and governmental activities (reported in the final column) in a reconciliation in the middle column of the exhibits.

## **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 3.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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 \$513,585.

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

	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 329,648	\$ 340,346
Capital assets	<u>419,937</u>	<u>393,202</u>
Total Assets	<u>\$ 749,585</u>	<u>\$ 733,548</u>
Current liabilities	\$ 197,180	\$ 217,487
Long-term liabilities	<u>38,820</u>	<u>39,968</u>
Total Liabilities	<u>\$ 236,000</u>	<u>\$ 257,455</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 419,937	\$ 393,202
Unrestricted	<u>93,648</u>	<u>82,891</u>
Total Net Assets	<u>\$ 513,585</u>	<u>\$ 476,093</u>

### Governmental Activities

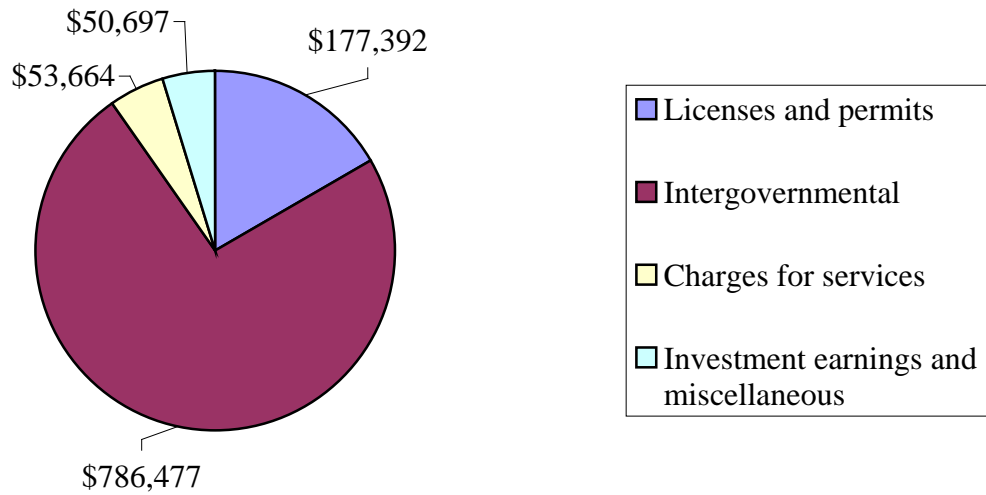
The Health Services' net assets increased by \$37,492, or 7.87 percent, from \$476,093 to \$513,585.

The Health Services' long-term liabilities are for compensated absences. Deferred revenue accounts for 69 percent of the other liabilities. Other liabilities are detailed on the General Fund balance sheet under liabilities.

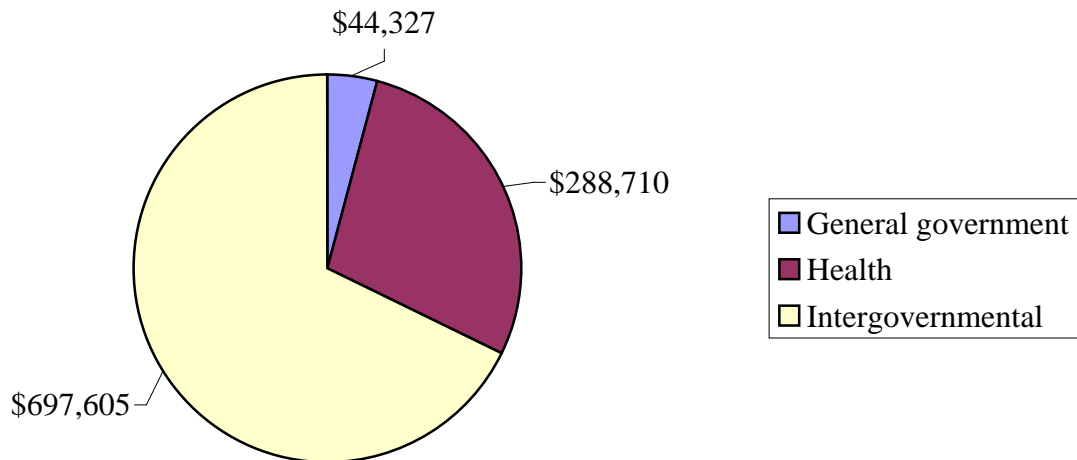
**Table 2**  
**Changes in Net Assets**

	2004	2003
Revenues		
Program revenues		
Licenses and permits	\$ 177,392	\$ 171,192
Intergovernmental	786,477	826,099
Charges for services	53,664	98,552
General revenues		
Investment earnings	3,276	4,016
Miscellaneous	47,421	45,911
	\$ 1,068,230	\$ 1,145,770
Expenses		
Program expenses		
General government	\$ 44,327	\$ 52,229
Health	288,806	439,330
Intergovernmental payments	697,605	582,127
	\$ 1,030,738	\$ 1,073,686
Increase (Decrease) in Net Assets	\$ 37,492	\$ 72,084
Net Assets – January 1	476,093	404,009
Net Assets – December 31	\$ 513,585	\$ 476,093

### Revenues 2004



### Expenses 2004



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

Intergovernmental revenue consists of state and federal grants received from the Minnesota Department of Health and the Minnesota Pollution Control Agency. Our largest revenues are licenses and permits and intergovernmental sources.

Some changes in the net assets are based on the following:

- Charges for services income was reduced; with the elimination of the lab, there was no radon grant received in 2004.
- Health expenses were reduced due to the elimination of a position, other staff leaving the agency; with the elimination of the lab, there were no lab expenses, no radon supplies were purchased, and the Family Planning grant was reduced by 50 percent.
- Intergovernmental payments were increased in 2004 because the CHS grant was increased; we received two new grants--Child and Teen Checkup and Women, Infants, and Children (WIC).

## **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**

In July 2004, the Health Services' Board approved budget changes due to the following reasons:

- WIC grant monies are now sent directly to the Community Health Board.
- Child and Teen Checkup funds are now sent directly to Community Health Board.

- Temporary Assistance for Needy Families funding was increased.
- Establishment license fees, as well as food safety education training fees, were increased.
- A grant from the Minnesota Department of Health for arsenic sampling was awarded in 2004.
- Surface water project grants allocated administrative reimbursements in early 2004.
- Miscellaneous income increased from the projected budget set in October 2003.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

Our assets increased \$44,070, due to the improvements done on the Elixir Building in New Ulm, Minnesota. Remodeling was done on the restrooms along with making them handicapped accessible.

### **Debt Administration**

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

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

	<u>2004</u>	<u>2003</u>
Capital Assets		
Land	\$ 41,063	\$ 41,063
Building	377,630	349,651
Machinery, furniture, and equipment	<u>1,244</u>	<u>2,488</u>
Capital Assets, Net	<u>\$ 419,937</u>	<u>\$ 393,202</u>

## **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 and the Minnesota Pollution Control Agency 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 2005 based on a new system of categorization of establishments and a new 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.

## **BASIC FINANCIAL STATEMENTS**

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

**EXHIBIT 1**

**GENERAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
DECEMBER 31, 2004**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b><u>Assets</u></b>			
Current assets			
Cash and pooled investments	\$ 267,010	\$ -	\$ 267,010
Due from other governments	62,638	-	62,638
Noncurrent assets			
Capital assets - net	-	419,937	419,937
<b>Total Assets</b>	<b>\$ 329,648</b>	<b>\$ 419,937</b>	<b>\$ 749,585</b>
<b><u>Liabilities</u></b>			
Current liabilities			
Accounts payable	\$ 791	\$ -	\$ 791
Due to other governments	59,495	-	59,495
Deferred revenue - unearned	136,894	-	136,894
Long-term liabilities			
Due within one year	-	20,847	20,847
Due in more than one year	-	17,973	17,973
<b>Total Liabilities</b>	<b>\$ 197,180</b>	<b>\$ 38,820</b>	<b>\$ 236,000</b>
<b><u>Fund Balance/Net Assets</u></b>			
<b>Fund Balance</b>			
Unreserved			
Undesignated	132,468	\$ (132,468)	
<b>Total Liabilities and Fund Balance</b>	<b>\$ 329,648</b>		
<b>Net Assets</b>			
Invested in capital assets		\$ 419,937	\$ 419,937
Unrestricted		93,648	93,648
<b>Total Net Assets</b>		<b>\$ 513,585</b>	<b>\$ 513,585</b>
<b>Reconciliation of the General Fund Balance to Net Assets</b>			
Fund Balance - General Fund			\$ 132,468
Long-term liabilities are reported on the Statement of Net Assets but not in the Fund Balance Sheet			
Compensated absences payable			(38,820)
Capital assets are reported on the Statement of Net Assets but not in the Fund Balance Sheet			419,937
<b>Net Assets - Governmental Activities</b>			<b>\$ 513,585</b>

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

**EXHIBIT 2**

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
<b>Revenues</b>			
Licenses and permits	\$ 177,392	\$ -	\$ 177,392
Intergovernmental	786,477	-	786,477
Charges for services	53,664	-	53,664
Investment earnings	3,276	-	3,276
Miscellaneous	47,421	-	47,421
<b>Total Revenues</b>	<b>\$ 1,068,230</b>	<b>\$ -</b>	<b>\$ 1,068,230</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
General government	\$ 72,306	\$ (27,979)	\$ 44,327
Health	288,710	96	288,806
<b>Intergovernmental</b>			
Brown County contract payments	278,545	-	278,545
Nicollet County contract payments	231,797	-	231,797
Pollution control	118,503	-	118,503
McKnight Foundation	55,019	-	55,019
Board of Water and Soil Resources - Brown County	6,109	-	6,109
Board of Water and Soil Resources - Nicollet County	7,632	-	7,632
<b>Total Expenditures/Expenses</b>	<b>\$ 1,058,621</b>	<b>\$ (27,883)</b>	<b>\$ 1,030,738</b>
<b>Net Change in Fund Balance/Net Assets</b>	<b>\$ 9,609</b>	<b>\$ 27,883</b>	<b>\$ 37,492</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>122,859</b>	<b>353,234</b>	<b>476,093</b>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 132,468</b>	<b>\$ 381,117</b>	<b>\$ 513,585</b>
<b>Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities of Governmental Activities</b>			
Net change in fund balance			\$ 9,609
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.			
Change in compensated absences during 2004			1,148
Governmental funds report capital outlay as expenditures. Governmental activities report cost of capital assets over time as depreciation expenses.			
Capital outlay reported in the fund			44,070
Depreciation expense			(17,335)
<b>Net Change in Net Assets of Governmental Activities</b>			<b>\$ 37,492</b>

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

**EXHIBIT 3**

**BUDGETARY COMPARISON  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Licenses and permits	\$ 178,850	\$ 178,850	\$ 177,392	\$ (1,458)
Intergovernmental	684,282	893,142	786,477	(106,665)
Charges for services	22,621	39,560	53,664	14,104
Investment earnings	4,000	4,000	3,276	(724)
Miscellaneous	40,191	42,191	47,421	5,230
<b>Total Revenues</b>	<b>\$ 929,944</b>	<b>\$ 1,157,743</b>	<b>\$ 1,068,230</b>	<b>\$ (89,513)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Administration	\$ 22,790	\$ 22,651	\$ 17,948	\$ 4,703
Elixir building	27,931	15,143	50,133	(34,990)
Children's water festival	8,382	5,600	4,225	1,375
<b>Total general government</b>	<b>\$ 59,103</b>	<b>\$ 43,394</b>	<b>\$ 72,306</b>	<b>\$ (28,912)</b>
<b>Health</b>				
Environmental health	\$ 290,579	\$ 274,827	\$ 254,459	\$ 20,368
Family planning	-	51,467	34,251	17,216
Child development	9,100	9,100	-	9,100
<b>Total health</b>	<b>\$ 299,679</b>	<b>\$ 335,394</b>	<b>\$ 288,710</b>	<b>\$ 46,684</b>
<b>Intergovernmental</b>				
Brown County contract payments	\$ 140,136	\$ 254,887	\$ 278,545	\$ (23,658)
Nicollet County contract payments	154,236	256,278	231,797	24,481
Pollution control	158,282	149,337	118,503	30,834
McKnight Foundation	124,740	67,400	55,019	12,381
Board of Soil and Water Resources - Brown County	6,750	6,750	6,109	641
Board of Soil and Water Resources - Nicollet County	13,650	13,650	7,632	6,018
<b>Total intergovernmental</b>	<b>\$ 597,794</b>	<b>\$ 748,302</b>	<b>\$ 697,605</b>	<b>\$ 50,697</b>
<b>Total Expenditures</b>	<b>\$ 956,576</b>	<b>\$ 1,127,090</b>	<b>\$ 1,058,621</b>	<b>\$ 68,469</b>
<b>Net Change in Fund Balance</b>	<b>\$ (26,632)</b>	<b>\$ 30,653</b>	<b>\$ 9,609</b>	<b>\$ (21,044)</b>
<b>Fund Balance - January 1</b>	<b>122,859</b>	<b>122,859</b>	<b>122,859</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 96,227</b>	<b>\$ 153,512</b>	<b>\$ 132,468</b>	<b>\$ (21,044)</b>

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

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

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1. Summary of Significant Accounting Policies

The Brown-Nicollet Community Health Services' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. 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.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Brown-Nicollet Community Health Services' overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Brown-Nicollet Community Health Services' activities.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Brown-Nicollet Community Health Services has elected to implement all provisions of the statement in the current year.

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.

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

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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.

B. Basic Financial Statements

Basic financial statements include information on the Brown-Nicollet Community Health Services' activities as a whole and information on the individual fund. These separate presentations are reported in different columns on Exhibits 1 and 2. Each of the exhibits starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of the Health Services as a whole.

The governmental activities column is reported on the full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The net assets are reported in two parts: invested in capital assets, net of related debt, and unrestricted net assets. The Statement of Activities demonstrates the degree to which the expenses are offset by revenues.

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

C. Measurement Focus and Basis of Accounting

The governmental activities are reported using 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.

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

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Brown-Nicollet Community Health Services considers all revenues to be 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 general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

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

Deferred revenue consists of funds received but not yet earned.

**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.

E. 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.

2. Detailed Notes

A. Assets

1. Deposits and Investments

Cash transactions are administered by the Nicollet County 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.

2. Receivables

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

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

2. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, 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	\$ 599,555	\$ 44,070	\$ -	\$ 643,625
Machinery, furniture, and equipment	<u>35,948</u>	<u>-</u>	<u>-</u>	<u>35,948</u>
Total capital assets depreciated	<u>\$ 635,503</u>	<u>\$ 44,070</u>	<u>\$ -</u>	<u>\$ 679,573</u>
Less: accumulated depreciation for				
Buildings	\$ 249,904	\$ 16,091	\$ -	\$ 265,995
Machinery, furniture, and equipment	<u>33,460</u>	<u>1,244</u>	<u>-</u>	<u>34,704</u>
Total accumulated depreciation	<u>\$ 283,364</u>	<u>\$ 17,335</u>	<u>\$ -</u>	<u>\$ 300,699</u>
Total capital assets depreciated, net	<u>\$ 352,139</u>	<u>\$ 26,735</u>	<u>\$ -</u>	<u>\$ 378,874</u>
Capital Assets, Net	<u><u>\$ 393,202</u></u>	<u><u>\$ 26,735</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 419,937</u></u>

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

Governmental Activities	
General government	\$ 16,091
Health	<u>1,244</u>
Total Depreciation Expense	<u><u>\$ 17,335</u></u>

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

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2. 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. These leases are expected to continue or be replaced with similar leases. Total lease payments for the year ended December 31, 2004, were \$11,400. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2005	\$ 11,400
2006	12,000
2007	12,000
2008	12,000
2009	12,000
Total Lease	\$ 59,400

2. Long-Term Liabilities

Changes in compensated absences payable for 2004 were:

January 1	\$ 39,968
Net decrease	1,148
December 31	\$ 38,820
Due within one year	20,847
Long-Term Portion	\$ 17,973

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

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3. Intergovernmental Revenue

The Brown-Nicollet Community Health Services received the following state, federal, and local grants for the year ended December 31, 2004, which are shown as intergovernmental revenue in Exhibit 2.

Reimbursement for services		
Minnesota Department of Human Services	\$	29,671
State revenue		
Minnesota Department of Health		264,134
Minnesota Pollution Control Agency		58,930
Minnesota Department of Human Services		29,671
Federal revenue		
Women, Infants, and Children		119,566
State Indoor Radon Grant		20,165
Water Pollution Control		2,000
Regional Biomass Energy Project		39,000
Immunization Grants		1,200
Center for Disease Control and Prevention (Bio-Terrorism Grant)		69,272
Temporary Assistance for Needy Families		29,521
Maternal and Child Health		68,328
Local revenue		
McKnight Foundation		<u>55,019</u>
 Total Intergovernmental Revenue	 \$	 <u>786,477</u>

4. 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 the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the Brown-Nicollet Community Health Services in a method and amount to be determined by the MCIT.

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

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4. Risk Management (Continued)

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

5. 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). The 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.

The 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

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

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5. Pension Plans

A. Plan Description (Continued)

Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

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

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

The 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 web at [mnpera.org](http://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. These statutes are established and amended by the State Legislature. The Brown-Nicollet Community 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 are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. The Health Services is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53

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

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5. Pension Plans

B. Funding Policy (Continued)

The Brown-Nicollet Community Health Services' contributions for the years ending December 31, 2004, 2003, and 2002, were \$11,601, \$13,962, and \$16,247, respectively, equal to the contractually required contributions for each year as set by state statute.

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**STATE OF MINNESOTA**  
**OFFICE OF THE STATE AUDITOR**

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PATRICIA ANDERSON  
STATE AUDITOR

**REPORT ON MINNESOTA LEGAL COMPLIANCE**

Human Services Board  
Brown-Nicollet Community Health Services

We have audited the basic financial statements of the Brown-Nicollet Community Health Services as of and for the year ended December 31, 2004, and have issued our report thereon dated October 27, 2005.

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, the Brown-Nicollet Community Health Services complied with the material terms and conditions of applicable legal provisions.

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

/s/Pat Anderson

/s/Greg Hierlinger

PATRICIA ANDERSON  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: October 27, 2005