

# 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, 2006

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

The mission of the State Auditor's Office 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.

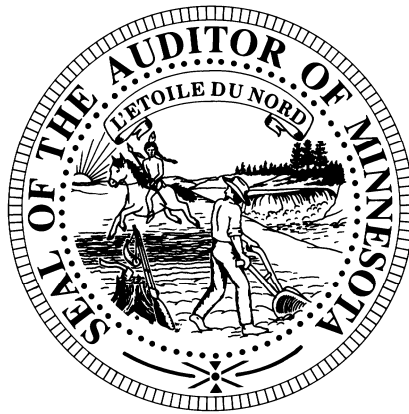
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

**Year Ended December 31, 2006**



**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  
2006**

<u>Office</u>	<u>Name</u>
Board Members	
Brown County Commissioners	
Member	Dennis Potter
Treasurer	Andrew Lochner
Member	Richard Seeboth
Chair	James Berg
Member	Charles Guggisberg
Nicollet County Commissioners	
Member	Jack Kolars
Secretary	James Stenson
Member	Judy Hanson
Vice Chair	David Haack
Member	Bruce Beatty
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

\*Passed away January 2007; Bridgette Kennedy appointed to complete term.

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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 the General Fund of the Brown-Nicollet Community Health Services as of and for the year ended December 31, 2006, 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, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

January 7, 2008

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006  
(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, 2006. We encourage readers to consider the information presented here.

**FINANCIAL HIGHLIGHTS**

- On December 31, 2006, our total assets were \$788,630, and our total liabilities were \$193,942. We showed net assets of \$594,688, of which \$390,320 is invested in capital assets.
- Our income is mainly state and federal grants, fees from our licensing program, and charges for services.
- We have no debt or obligations to citizens or creditors.
- Long-term liabilities are for compensated absences.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the basic financial statements. The financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The 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 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**

### **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 \$594,688.

**Table 1  
Governmental Net Assets**

	2006	2005
Current and other assets	\$ 398,310	\$ 362,150
Capital assets	390,320	407,680
<b>Total Assets</b>	<b>\$ 788,630</b>	<b>\$ 769,830</b>
Current liabilities	\$ 144,673	\$ 130,474
Long-term liabilities	49,269	42,879
<b>Total Liabilities</b>	<b>\$ 193,942</b>	<b>\$ 173,353</b>
Net Assets		
Invested in capital assets	\$ 390,320	\$ 407,680
Restricted for general government	6,659	6,467
Unrestricted	197,709	182,330
<b>Total Net Assets</b>	<b>\$ 594,688</b>	<b>\$ 596,477</b>

The Health Services' net assets decreased by \$1,789, or 0.3 percent, from \$596,477 to \$594,688.

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

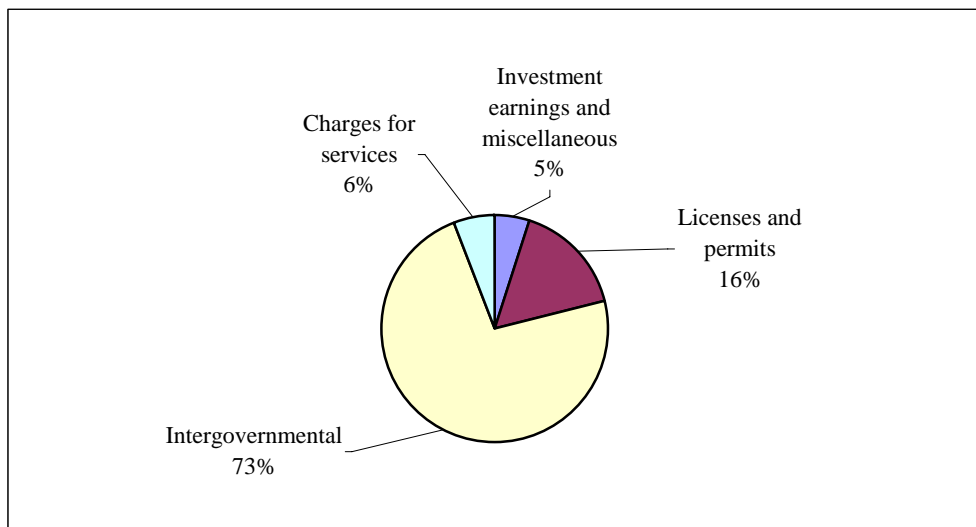
**Table 2  
Changes in Net Assets**

	2006	2005
Revenues		
Program revenues		
Licenses and permits	\$ 195,772	\$ 172,613
Intergovernmental	895,057	864,772
Charges for services	71,931	82,104
General revenues		
Gifts and contributions	4,500	5,150
Investment earnings	10,298	2,893
Miscellaneous	46,470	50,793
<b>Total Revenues</b>	<b>\$ 1,224,028</b>	<b>\$ 1,178,325</b>

	2006	2005
Expenses		
Program expenses		
General government	\$ 50,343	\$ 59,815
Health	357,327	299,237
Intergovernmental payments	818,147	736,381
Total Expenses	\$ 1,225,817	\$ 1,095,433
Increase (Decrease) in Net Assets	\$ (1,789)	\$ 82,892
Net Assets - January 1	596,477	513,585
Net Assets - December 31	\$ 594,688	\$ 596,477

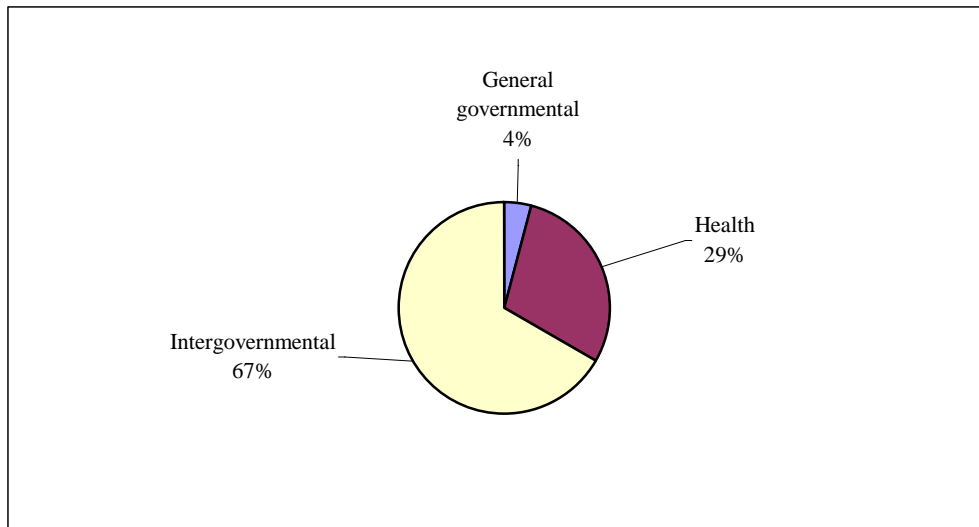
Our largest revenues were from licenses and permits and intergovernmental sources. Increases in these two sources of revenue account for the majority of the \$45,703 increase from 2005. Licenses and permits revenues increased due to an increase in establishment licenses fees in July 2005. Intergovernmental revenues increased, in most part, because of a new water drainage mapping grant received from the Water and Soil Resources Board and a federal flu grant received from the Department of Health and Human Services.

#### 2006 Revenues



Expenses increased \$130,384, with large increases in health and intergovernmental payments. Health expenses increased due to the hiring of a part-time staff member mid-year for the water quality programs and increased usage of family planning programs. Intergovernmental payments increased because of expenses related to the new water mapping grant and an increase in payments to Brown and Nicollet Counties for various pass-through grants, including the federal flu grant noted above.

## 2006 Expenses



### 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

No major changes were made to the budget during 2006. Revenues exceeded the budget amount by \$91,541. This was in most part due to revenues from various pass-through grants (to Brown and Nicollet Counties) that exceeded what had been budgeted. Expenditures exceeded the budget amount by \$76,666. This variance is due to expenditures related to pass-through grants. Revenues and expenditures of these grants are directly related; just as revenues related to the grants were over budget, so too were the related expenditures.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

Our assets decreased by \$17,360 as a result of current year's depreciation on the building and equipment. Also, some fully depreciated water testing equipment was disposed of.

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

	<u>2006</u>	<u>2005</u>
Capital Assets		
Land	\$ 41,063	\$ 41,063
Building	345,448	361,539
Machinery, furniture, and equipment	<u>3,809</u>	<u>5,078</u>
Capital Assets, Net	<u>\$ 390,320</u>	<u>\$ 407,680</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 Water and Soil Resources Board on a noncompetitive population needs-based formula or through a competitive grant application process. Funding will fluctuate according to state and federal actions and population changes.

Funding from license fees and fees for service will remain relatively consistent, with a small increase for 2007 based on a five percent increase in the establishments 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, 2006**

	General Fund	Adjustments	Governmental Activities
<b><u>Assets</u></b>			
Current assets			
Cash and pooled investments	\$ 331,100	\$ -	\$ 331,100
Due from other governments	67,210	-	67,210
Capital assets			
Non-depreciable	-	41,063	41,063
Depreciable assets - net	-	349,257	349,257
<b>Total Assets</b>	<b>\$ 398,310</b>	<b>\$ 390,320</b>	<b>\$ 788,630</b>
<b><u>Liabilities</u></b>			
Current liabilities			
Accounts payable	\$ 425	\$ -	\$ 425
Salaries payable	5,504	-	5,504
Due to other governments	70,723	-	70,723
Deferred revenue - unavailable	12,304	(12,304)	-
Deferred revenue - unearned	68,021	(68,021)	-
Unearned revenue	-	68,021	68,021
Long-term liabilities			
Due within one year	-	28,580	28,580
Due in more than one year	-	20,689	20,689
<b>Total Liabilities</b>	<b>\$ 156,977</b>	<b>\$ 36,965</b>	<b>\$ 193,942</b>
<b><u>Fund Balance/Net Assets</u></b>			
<b>Fund Balance</b>			
Reserved for donations	\$ 6,659	\$ (6,659)	
Unreserved, undesignated	234,674	(234,674)	
<b>Total Fund Balance</b>	<b>\$ 241,333</b>	<b>\$ (241,333)</b>	
<b>Total Liabilities and Fund Balance</b>	<b>\$ 398,310</b>		
<b>Net Assets</b>			
Invested in capital assets		\$ 390,320	\$ 390,320
Restricted for general government		6,659	6,659
Unrestricted		197,709	197,709
<b>Total Net Assets</b>		<b>\$ 594,688</b>	<b>\$ 594,688</b>

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

***EXHIBIT 1***  
***(Continued)***

**GENERAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
DECEMBER 31, 2006**

**Reconciliation of the General Fund Balance to Net Assets**

Fund Balance - General Fund	\$ 241,333
Compensated absences payable are reported on the Statement of Net Assets but not on the Fund Balance Sheet.	(49,269)
Capital assets are reported on the Statement of Net Assets but not on the Fund Balance Sheet.	390,320
Other long-term assets not available to pay current period expenditures are deferred on the Fund Balance Sheet but not on the Statement of Net Assets.	<u>12,304</u>
<b>Net Assets - Governmental Activities</b>	<b><u><u>\$ 594,688</u></u></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, 2006**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
<b>Revenues</b>			
Licenses and permits	\$ 195,772	\$ -	\$ 195,772
Intergovernmental	882,753	12,304	895,057
Charges for services	71,931	-	71,931
Gifts and contributions	4,500	-	4,500
Investment earnings	10,298	-	10,298
Miscellaneous	46,470	-	46,470
<b>Total Revenues</b>	<b>\$ 1,211,724</b>	<b>\$ 12,304</b>	<b>\$ 1,224,028</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
General government	\$ 34,252	\$ 16,091	\$ 50,343
Health	349,868	7,459	357,327
<b>Intergovernmental - health</b>	<b>817,947</b>	<b>200</b>	<b>818,147</b>
<b>Total Expenditures/Expenses</b>	<b>\$ 1,202,067</b>	<b>\$ 23,750</b>	<b>\$ 1,225,817</b>
<b>Net Change in Fund Balance/Net Assets</b>	<b>\$ 9,657</b>	<b>\$ (11,446)</b>	<b>\$ (1,789)</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>231,676</b>	<b>364,801</b>	<b>596,477</b>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 241,333</b>	<b>\$ 353,355</b>	<b>\$ 594,688</b>

**Reconciliation of the Statement of General Fund Revenues,  
Expenditures, and Changes in Fund Balances to the Statement  
of Activities of Governmental Activities**

Net change in fund balance	\$ 9,657
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	12,304
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 2006	(6,390)
Governmental activities report cost of capital assets over time as depreciation expenses.	(17,360)
<b>Net Change in Net Assets of Governmental Activities</b>	<b>\$ (1,789)</b>

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

**EXHIBIT 3**

**BUDGETARY COMPARISON  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Licenses and permits	\$ 185,671	\$ 185,671	\$ 195,772	\$ 10,101
Intergovernmental	828,143	828,143	882,753	54,610
Charges for services	55,551	55,551	71,931	16,380
Gifts and contributions	3,000	3,000	4,500	1,500
Investment earnings	3,500	3,500	10,298	6,798
Miscellaneous	44,318	44,318	46,470	2,152
<b>Total Revenues</b>	<b>\$ 1,120,183</b>	<b>\$ 1,120,183</b>	<b>\$ 1,211,724</b>	<b>\$ 91,541</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Administration	\$ 23,495	\$ 23,495	\$ 20,655	\$ 2,840
Elixir building	17,219	17,219	9,289	7,930
Children's water festival	6,000	6,000	4,308	1,692
<b>Total general government</b>	<b>\$ 46,714</b>	<b>\$ 46,714</b>	<b>\$ 34,252</b>	<b>\$ 12,462</b>
<b>Health</b>				
Environmental health	\$ 271,872	\$ 271,872	\$ 294,867	\$ (22,995)
Family planning	70,000	70,000	55,001	14,999
<b>Total health</b>	<b>\$ 341,872</b>	<b>\$ 341,872</b>	<b>\$ 349,868</b>	<b>\$ (7,996)</b>
<b>Intergovernmental</b>				
Brown County contract payments	\$ 272,167	\$ 272,167	\$ 314,329	\$ (42,162)
Nicollet County contract payments	264,482	264,482	325,440	(60,958)
Seven Mile Creek project	67,296	67,296	55,207	12,089
Little Cottonwood River	57,862	57,862	52,631	5,231
McKnight Foundation	27,702	27,702	14,532	13,170
Water and Soil Resources Board				
Brown County	4,458	4,458	6,932	(2,474)
Nicollet County	6,393	6,393	13,366	(6,973)
Control drainage	15,600	15,600	12,284	3,316
Water drainage mapping project	10,855	10,855	19,782	(8,927)
Sediment finger printing	-	-	1,337	(1,337)
Conservation planning	10,000	10,000	2,107	7,893
<b>Total intergovernmental</b>	<b>\$ 736,815</b>	<b>\$ 736,815</b>	<b>\$ 817,947</b>	<b>\$ (81,132)</b>
<b>Total Expenditures</b>	<b>\$ 1,125,401</b>	<b>\$ 1,125,401</b>	<b>\$ 1,202,067</b>	<b>\$ (76,666)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (5,218)</b>	<b>\$ (5,218)</b>	<b>\$ 9,657</b>	<b>\$ 14,875</b>
<b>Fund Balance - January 1</b>	<b>231,676</b>	<b>231,676</b>	<b>231,676</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 226,458</b>	<b>\$ 226,458</b>	<b>\$ 241,333</b>	<b>\$ 14,875</b>

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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006

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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) as of and for the year ended December 31, 2006. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Brown-Nicollet Community Health Services are discussed below.

A. Financial Reporting Entity

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

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

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

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

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1. Summary of Significant Accounting Policies (Continued)

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 three parts: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Statement of Activities demonstrates the degree to which the 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 the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The 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.

**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)

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

D. Assets and Liabilities

1. Cash

Cash is on deposit with Nicollet County.

2. Capital Assets

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

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

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

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

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1. Summary of Significant Accounting Policies

D. Asset and Liabilities (Continued)

3. Compensated Absences

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

4. Deferred Revenue

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

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.

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

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2. Stewardship, Compliance, and Accountability

A. 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.

B. Excess of Expenditures Over Budget

The General Fund had expenditures in excess of budget for the year ended December 31, 2006.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	<u>\$ 1,202,067</u>	<u>\$ 1,125,401</u>	<u>\$ 76,666</u>

3. Detailed Notes

A. Assets

1. Deposits and Investments

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

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**

3. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 41,063	\$ -	\$ -	\$ 41,063
Capital assets depreciated				
Buildings and improvements	\$ 643,625	\$ -	\$ -	\$ 643,625
Machinery, furniture, and equipment	33,795	-	21,228	12,567
Total capital assets depreciated	\$ 677,420	\$ -	\$ 21,228	\$ 656,192
Less: accumulated depreciation for				
Buildings	\$ 282,086	\$ 16,091	\$ -	\$ 298,177
Machinery, furniture, and equipment	28,717	1,269	21,228	8,758
Total accumulated depreciation	\$ 310,803	\$ 17,360	\$ 21,228	\$ 306,935
Total capital assets depreciated, net	\$ 366,617	\$ (17,360)	\$ -	\$ 349,257
Capital Assets, Net	<u>\$ 407,680</u>	<u>\$ (17,360)</u>	<u>\$ -</u>	<u>\$ 390,320</u>

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

Governmental Activities	
General government	\$ 16,091
Health	1,069
Intergovernmental - Health	200
	<u>          </u>
Total Depreciation Expense	<u>\$ 17,360</u>

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

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3. Detailed Notes (Continued)

B. Liabilities

1. Operating Leases

The Brown-Nicollet Community Health Services has entered into an operating lease for its current office space effective through December 31, 2009. These leases are expected to continue or be replaced with similar leases. Total lease payments for the year ended December 31, 2006, were \$15,120. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2007	\$ 12,000
2008	12,000
2009	12,000
Total Lease	\$ 36,000

2. Long-Term Liabilities

Changes in compensated absences payable for 2006 were:

January 1	\$	42,879
Net increase		6,390
December 31	\$	49,269
Due within one year		28,580
Long-Term Portion	\$	20,689

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

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4. Intergovernmental Revenue

The Brown-Nicollet Community Health Services received the following state, federal, and local grants for the year ended December 31, 2006, which are shown as General Fund intergovernmental revenue in Exhibit 2.

Reimbursement for services		
Minnesota Department of Human Services	\$	35,135
State revenue		
Water and Soil Resources Board		22,500
Minnesota Department of Health		274,279
Minnesota Pollution Control Agency		126,343
Minnesota Department of Human Services		35,135
Federal revenue		
Women, Infants, and Children		191,165
Center for Disease Control and Prevention (Bio-Terrorism Grant)		82,327
Temporary Assistance for Needy Families		34,229
Maternal and Child Health		64,111
Special Education Grant		3,177
Local revenue		
McKnight Foundation		<u>14,352</u>
 Total Intergovernmental Revenue	 \$	 <u>882,753</u>

5. Risk Management

The Brown-Nicollet Community Health Services is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The Health Services has entered into a joint powers agreement with certain Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT) to cover its workers' compensation and property and casualty liabilities.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$390,000 per claim in 2006 and \$400,000 per claim in 2007. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Health Services in a method and amount to be determined by MCIT.

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

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5. Risk Management (Continued)

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

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

6. Pension Plans

A. Plan Description

All full-time and certain part-time employees of the Brown-Nicollet Community Health Services are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). 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 Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the

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

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6. Pension Plans

A. Plan Description (Continued)

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

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

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

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 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. 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 were required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent.

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

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6. Pension Plans

B. Funding Policy (Continued)

The Health Services is required to contribute the following percentages of annual covered payroll in 2006 and 2007:

	<u>2006</u>	<u>2007</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.25

The Brown-Nicollet Community Health Services' contributions for the years ending December 31, 2006, 2005, and 2004, were \$14,376, \$11,682, and \$11,601 respectively, equal to the contractually required contributions for each year as set by state statute.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

06-1 Preparation of Financial Statements

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

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

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

Client's Response:

*We have begun to work with the Office of the State Auditor's staff to prepare and present and better understand the use of required spreadsheets by preparing the Cash Transaction Spreadsheet and the Budget Spreadsheet.*

## 06-2 Audit Adjustments

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

- Corrections were made to reclassify various revenue and receivable amounts.
- The recording of additional payable amounts was required.

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

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

### Client's Response:

*As we become familiar with the Trans-Code Listing spreadsheet we will be better able to identify the need to adjust the budget in a timely manner.*

## **II. OTHER ITEM FOR CONSIDERATION**

### Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

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

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

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

If applicable for the Brown-Nicollet Community Health Services, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2008 and 2009, respectively.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE**

Health Services Board  
Brown-Nicollet Community Health Services

We have audited the financial statements of the governmental activities and the General Fund of the Brown-Nicollet Community Health Services as of and for the year ended December 31, 2006, and have issued our report thereon dated January 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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.

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

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

Health Services' financial statements that is more than inconsequential will not be prevented or detected by the Health Services' internal control over financial reporting. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 06-1 and 06-2 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe neither of the significant deficiencies mentioned above are material weaknesses.

### Minnesota Legal Compliance

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

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

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.

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

The Brown-Nicollet Community Health Services' written responses to the significant deficiencies identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

January 7, 2008