

# 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, 2015**

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

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

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

The State Auditor performs approximately 150 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 700 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, 2015**



**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  
2015**

<u>Office</u>	<u>Name</u>
Board Members	
Brown County Commissioners	
Chair	Scott Windschitl
Treasurer	James Berg
Member	Dennis Potter
Member	Richard Seeboth
Member	Dean Simonsen
Nicollet County Commissioners	
Vice Chair	Marie Dranttel
Clerk	James Stenson
Member	Bruce Beatty
Member	Dave Haack
Member	Jack Kolars
Fiscal Administrator	Lisa Stadler
Management Team	
Co-Director	Karen Swenson Environmental Director
Co-Director	Karen Moritz Brown County Nursing Director
Co-Director	Mary Hildebrandt Nicollet County Nursing Director

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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  
St. Peter, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of Brown-Nicollet Community Health Services as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Health Services' basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Health Services' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Health Services' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Brown-Nicollet Community Health Services as of December 31, 2015, and the respective changes in financial position thereof and the budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter - Change in Accounting Principle***

As discussed in Note 1.E. to the financial statements, in 2015 the Health Services adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

October 13, 2016

*/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, 2015  
(Unaudited)**

Brown-Nicollet Community Health Services' Management's Discussion and Analysis (MD&A) provides an overview of the Health Services' financial activities for the fiscal year ended December 31, 2015. We encourage readers to consider the information presented here.

**FINANCIAL HIGHLIGHTS**

- On December 31, 2015, our assets and deferred outflows of resources exceeded our liabilities and deferred inflows of resources by \$512,870. Of this amount, \$307,801 is invested in capital assets.
- Our income is mainly state and federal grants, fees from our licensing program, and rental income.
- We have no debt or obligations to citizens or creditors.
- Long-term liabilities are for compensated absences and pension obligations.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the basic financial statements. The financial statements comprise three components: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**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 position presents information on all of the Health Services' assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 and public health. 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 the balances left at year-end that are available for spending. This fund is reported using the modified accrual method of accounting, which measures cash and all other financial assets that can be readily converted to cash. The General Fund statements provide a detailed short-term view of the Health Services' operations and the basic services it provides. General Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Health Services' programs. We describe the relationship (or differences) between General Fund activities and governmental activities in reconciliations on Exhibits 4 and 6.

### **Notes to the Financial Statements**

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found directly after Exhibit 7.

### **Other Information**

In addition to the basic financial statements and notes, this report also presents certain required supplementary information concerning Brown-Nicollet Community Health Services' proportionate share of the net pension liability of, and contributions to, the Public Employees Retirement Association of Minnesota's General Employees Retirement Fund (Exhibits A-1 and A-2).

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Governmental Activities

Net position may, over time, be a useful indicator of the government's financial position. In the case of the Health Services, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$512,870 at the close of 2015.

	2015	2014 Restated*
Assets		
Current and other assets	\$ 698,402	\$ 659,227
Capital assets	307,801	325,748
Total Assets	\$ 1,006,203	\$ 984,975
Deferred Outflows of Resources	\$ 29,664	\$ 9,120
Liabilities		
Current liabilities	\$ 241,538	\$ 208,669
Long-term liabilities	261,431	224,034
Total Liabilities	\$ 502,969	\$ 432,703
Deferred Inflows of Resources	\$ 20,028	\$ -
Net Position		
Invested in capital assets	\$ 307,801	\$ 325,748
Restricted for health	24,367	31,645
Unrestricted	180,702	203,999
Total Net Position	\$ 512,870	\$ 561,392

\*Restatement for change in accounting principles; see Note 1.E.

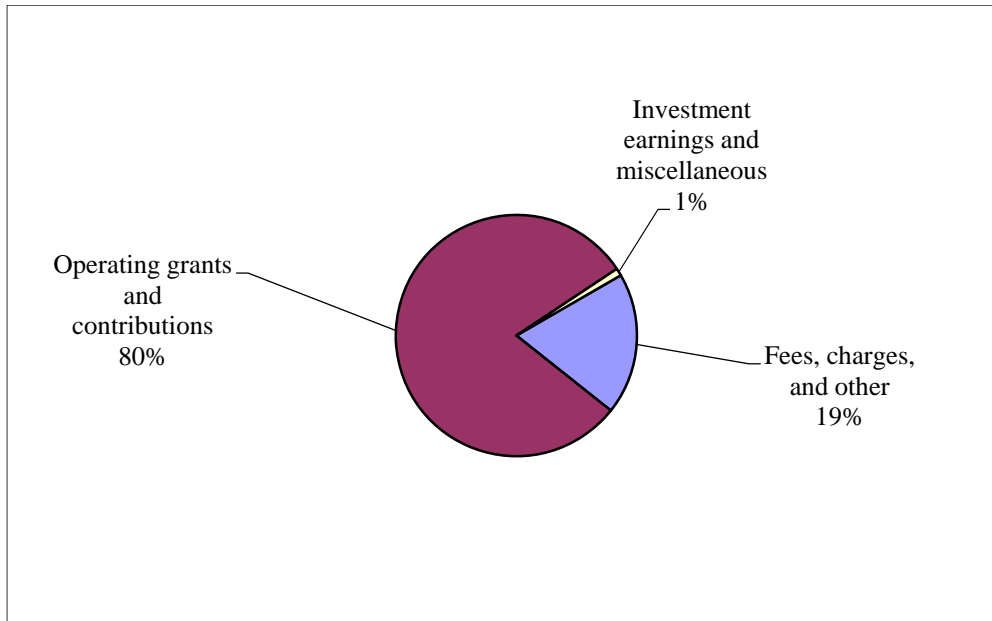
The Health Services' activities decreased net position by \$48,522, or 8.6 percent, from the 2015 net position. The following table summarizes the changes in net position for 2015.

### Changes in Net Position

	<u>2015</u>	<u>2014</u>
<b>Revenues</b>		
Program revenues		
Fees, charges, and other	\$ 307,298	\$ 305,339
Operating grants and contributions	1,227,564	1,009,516
Capital grants and contributions	-	19,199
General revenues		
Investment earnings	536	512
Miscellaneous	2,758	3,382
<b>Total Revenues</b>	<b>\$ 1,538,156</b>	<b>\$ 1,337,948</b>
<b>Expenses</b>		
Program expenses		
General government	\$ 57,970	\$ 53,904
Health	1,528,708	1,273,637
<b>Total Expenses</b>	<b>\$ 1,586,678</b>	<b>\$ 1,327,541</b>
Increase (Decrease) in Net Position	\$ (48,522)	\$ 10,407
Net Position - January 1, as restated	561,392*	732,757
Net Position - December 31, as reported	<u>\$ 512,870</u>	<u>\$ 743,164</u>

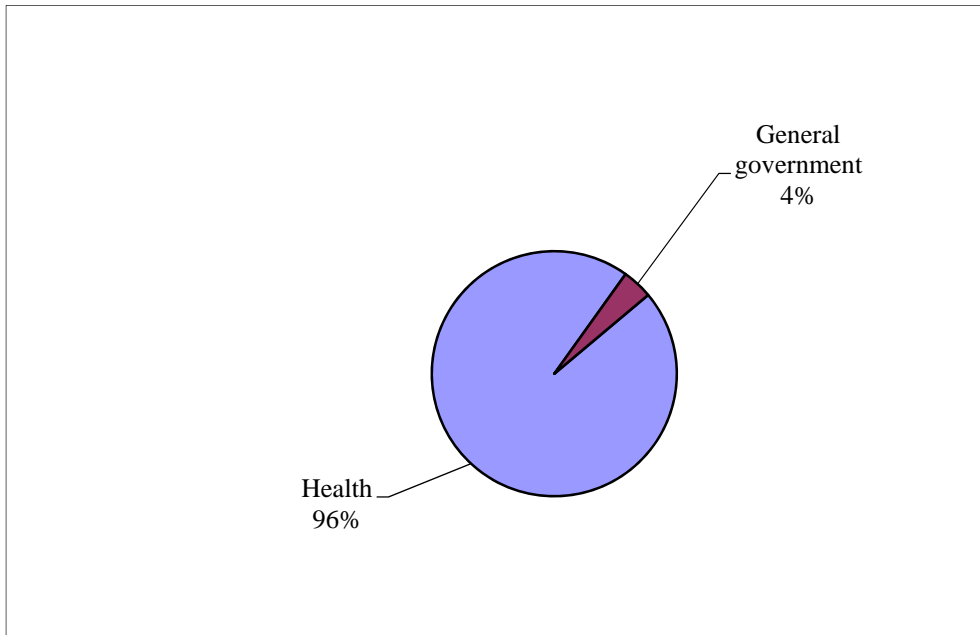
\*Amount includes a change in accounting principles; see Note 1.E.

### 2015 Revenues



(Unaudited)

## 2015 Expenses



### FINANCIAL ANALYSIS OF THE GENERAL FUND

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

The focus of 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, unrestricted fund balance may serve as a useful measure of net resources available for spending at the end of the fiscal year or to be carried into the next year's budgets.

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

As of the end of the current fiscal year, the General Fund reported a fund balance of \$456,864, increasing \$6,306, or 1.4 percent, from the prior year. The majority of this amount (\$432,497) constitutes unassigned fund balance, which is available for spending at the Health Services' discretion. The remainder of the fund balance is restricted for specific purposes and is not available for new spending.

## GENERAL FUND BUDGETARY HIGHLIGHTS

The Statewide Health Implementation Plan budget was revised in 2015 to reflect additional grant funds and expenditures. Both revenues and expenditures were relatively close to budgeted amounts. The differences that did occur are due, in most part, to grant activities included in the 2014 budget that were delayed until 2015.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

Our capital assets decreased by \$17,947 as a result of the current year's depreciation on the Elixir Building in New Ulm.

	Capital Assets (Net of Depreciation)	
	2015	2014
Capital Assets		
Land	\$ 41,063	\$ 41,063
Building	266,738	284,685
Capital Assets, Net	<u>\$ 307,801</u>	<u>\$ 325,748</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 Health Services operates as the applicant agency for the two member counties and receives funding for various federal and state public health programs from the Minnesota Department of Health and the Minnesota Department of Human Services 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 increase in 2016, as a 3.0 percent fee increase will be added to each establishment's license.

## **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, 622 South Front Street, St. Peter, Minnesota 56082.

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

**EXHIBIT 1**

**STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2015**

**Assets**

Cash and pooled investments	\$	556,240
Accounts receivable		2,461
Due from other governments		139,701
Capital assets		
Non-depreciable		41,063
Depreciable assets - net		266,738
		266,738
<b>Total Assets</b>	<b>\$</b>	<b>1,006,203</b>

**Deferred Outflows of Resources**

Deferred pension outflows	\$	29,664
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**Liabilities**

Accounts payable	\$	11,194
Salaries payable		4,460
Due to other governments		115,160
Unearned revenue		110,724
Long-term liabilities		
Due within one year		21,802
Due in more than one year		26,020
Net pension liability		213,609
		213,609
<b>Total Liabilities</b>	<b>\$</b>	<b>502,969</b>

**Deferred Inflows of Resources**

Deferred pension inflows	\$	20,028
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**Net Position**

Investment in capital assets	\$	307,801
Restricted for health		24,367
Unrestricted		180,702
		180,702
<b>Total Net Position</b>	<b>\$</b>	<b>512,870</b>

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

*EXHIBIT 2*

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<b>Expenses</b>	<b>Program Revenues</b>		<b>Net (Expense) Revenue and Change in Net Position</b>
<b><u>Functions/Programs</u></b>		<b>Fees, Charges, and Other</b>	<b>Operating Grants and Contributions</b>	
<b>Governmental activities</b>				
General government	\$ 57,970	\$ 49,651	\$ 8,938	\$ 619
Health	1,528,708	257,647	1,218,626	(52,435)
<b>Total Governmental Activities</b>	<b>\$ 1,586,678</b>	<b>\$ 307,298</b>	<b>\$ 1,227,564</b>	<b>\$ (51,816)</b>
<b>General Revenues</b>				
Investment earnings				\$ 536
Miscellaneous				2,758
<b>Total general revenues</b>				<b>\$ 3,294</b>
<b>Change in net position</b>				<b>\$ (48,522)</b>
<b>Net Position - January 1, as restated (Note 1.E.)</b>				<b>561,392</b>
<b>Net Position - December 31</b>				<b>\$ 512,870</b>

**FUND FINANCIAL STATEMENTS**

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

*EXHIBIT 3*

**BALANCE SHEET  
GENERAL FUND  
DECEMBER 31, 2015**

**Assets**

Cash and pooled investments	\$	556,240
Accounts receivable		2,461
Due from other governments		139,701
		<hr/>
<b>Total Assets</b>	<b>\$</b>	<b>698,402</b>
		<hr/> <hr/>

**Liabilities and Fund Balances**

**Liabilities**

Accounts payable	\$	11,194
Salaries payable		4,460
Due to other governments		115,160
Unearned revenue		110,724
		<hr/>

**Total Liabilities** **\$ 241,538**

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**Fund Balances**

Restricted for children's water festival	\$	24,367
Unassigned		432,497
		<hr/>

**Total Fund Balances** **\$ 456,864**

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**Total Liabilities and Fund Balances** **\$ 698,402**

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

***EXHIBIT 4***

**RECONCILIATION OF THE GENERAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2015**

<b>Fund Balance - General Fund (Exhibit 3)</b>		<b>\$</b>	<b>456,864</b>
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the General Fund.			307,801
Deferred outflows resulting from pension obligations are not available resources and, therefore, are not reported in the General Fund.			29,664
Long-term liabilities, including compensated absences and net pension liability, are not due and payable in the current period and, therefore, are not reported in the General Fund.			
Compensated absences payable	\$	(47,822)	
Net pension liability		<u>(213,609)</u>	(261,431)
Deferred inflows resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the General Fund.			<u>(20,028)</u>
<b>Net Position of Governmental Activities (Exhibit 1)</b>			<b><u><u>\$ 512,870</u></u></b>

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

*EXHIBIT 5*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

<b>Revenues</b>	
Licenses and permits	\$ 230,597
Intergovernmental	1,208,984
Charges for services	27,050
Gifts and contributions	18,580
Investment earnings	536
Miscellaneous	52,409
	<hr/>
<b>Total Revenues</b>	<b>\$ 1,538,156</b>
<b>Expenditures</b>	
<b>Current</b>	
General government	\$ 40,023
Health	756,899
<b>Intergovernmental</b>	<hr/> 734,928
	<hr/>
<b>Total Expenditures</b>	<b>\$ 1,531,850</b>
<b>Net Change in Fund Balance</b>	<b>\$ 6,306</b>
<b>Fund Balance - January 1</b>	<hr/> 450,558
<b>Fund Balance - December 31</b>	<b>\$ 456,864</b>

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

*EXHIBIT 6*

**RECONCILIATION OF THE GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

<b>Net Change in Fund Balance - General Fund (Exhibit 5)</b>	<b>\$</b>	<b>6,306</b>
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Amounts reported for governmental activities in the statement of activities are different because:

The General Fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		(17,947)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the General Fund.

Change in net deferred pension outflows, as restated	\$ 20,544	
Change in compensated absences payable	(14,680)	
Change in net pension liability, as restated	(22,717)	
Change in net deferred pension inflows	(20,028)	
	(36,881)	(36,881)

<b>Change in Net Position of Governmental Activities (Exhibit 2)</b>	<b>\$</b>	<b><u>(48,522)</u></b>
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**BROWN-NICOLLET COMMUNITY HEALTH SERVICES  
ST. PETER, MINNESOTA**

*EXHIBIT 7*

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Licenses and permits	\$ 238,468	\$ 238,468	\$ 230,597	\$ (7,871)
Intergovernmental	1,055,834	1,069,410	1,208,984	139,574
Charges for services	21,600	21,600	27,050	5,450
Gifts and contributions	16,000	16,000	18,580	2,580
Investment earnings	1,050	1,050	536	(514)
Miscellaneous	54,151	54,151	52,409	(1,742)
<b>Total Revenues</b>	<b>\$ 1,387,103</b>	<b>\$ 1,400,679</b>	<b>\$ 1,538,156</b>	<b>\$ 137,477</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Administration	\$ 25,307	\$ 25,307	\$ 26,052	\$ (745)
Elixir building	17,793	17,793	13,971	3,822
<b>Total general government</b>	<b>\$ 43,100</b>	<b>\$ 43,100</b>	<b>\$ 40,023</b>	<b>\$ 3,077</b>
<b>Health</b>				
Environmental health	\$ 319,252	\$ 319,252	\$ 330,146	\$ (10,894)
Family planning	90,000	90,000	92,978	(2,978)
Statewide health implementation plan	225,861	239,437	319,270	(79,833)
Children's water festival	11,286	11,286	14,505	(3,219)
<b>Total health</b>	<b>\$ 646,399</b>	<b>\$ 659,975</b>	<b>\$ 756,899</b>	<b>\$ (96,924)</b>
<b>Intergovernmental</b>				
Brown County contract payments	\$ 324,515	\$ 324,515	\$ 365,550	\$ (41,035)
Nicollet County contract payments	361,498	361,498	369,378	(7,880)
<b>Total intergovernmental</b>	<b>\$ 686,013</b>	<b>\$ 686,013</b>	<b>\$ 734,928</b>	<b>\$ (48,915)</b>
<b>Total Expenditures</b>	<b>\$ 1,375,512</b>	<b>\$ 1,389,088</b>	<b>\$ 1,531,850</b>	<b>\$ (142,762)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 11,591</b>	<b>\$ 11,591</b>	<b>\$ 6,306</b>	<b>\$ (5,285)</b>
<b>Fund Balance - January 1</b>	<b>450,558</b>	<b>450,558</b>	<b>450,558</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 462,149</b>	<b>\$ 462,149</b>	<b>\$ 456,864</b>	<b>\$ (5,285)</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, 2015

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1. Summary of Significant Accounting Policies

Brown-Nicollet Community Health Services' financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by Brown-Nicollet Community Health Services are discussed below.

A. Financial Reporting Entity

Brown, Nicollet, Sibley Human Services 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 Services Board was legally reorganized into Brown-Nicollet Community Health Services. The organization functions as a community health services 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 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

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the Health Services' governmental activities.

In the government-wide statement of net position, the governmental activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The net position is reported in three parts: (1) investment in capital assets, (2) restricted, and (3) unrestricted.

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

2. Fund Financial Statements

The fund financial statements (the balance sheet and statement of revenues, expenditures, and changes in fund balance) display information about the Health Services' General Fund.

C. Measurement Focus and Basis of Accounting

The governmental activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.



**BROWN-NICOLLET COMMUNITY HEALTH SERVICES  
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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Brown-Nicollet Community Health Services considers all revenues as available if collected within 60 days after the end of the current period. Charges for services and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Deposits and Investments

The Health Services' available cash balances are pooled and invested by Nicollet County in accordance with Minnesota statutes. The County's cash balances and investments are at fair value based on quoted market prices. Additional disclosures defining cash and pooled investments can be found in the Nicollet County Annual Financial Report.

2. Capital Assets

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

**BROWN-NICOLLET COMMUNITY HEALTH SERVICES  
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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

2. Capital Assets (Continued)

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

Capital assets of Brown-Nicollet Community Health Services are depreciated using the straight-line method over an estimated useful life of 40 years.

3. Compensated Absences

Brown-Nicollet Community Health Services' policy permits 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. A liability for compensated absences is reported in the General Fund only if it has matured, for example, as a result of employee resignations and retirements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. 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 Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The Health Services has one item, deferred pension outflows, which qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date and differences between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position.

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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

4. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Health Services has one item, deferred pension inflows, which qualify for reporting in this category. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and the pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

5. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

6. Unearned Revenue

The General Fund and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

7. Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

Investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation.

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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

7. Classification of Net Position (Continued)

Restricted - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted - the amount of net position that is not included in the investment in capital assets or restricted components.

8. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the Health Services is bound to observe constraints imposed upon the use of the resources in the General Fund. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - amounts in which constraints have been placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Health Services Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned - amounts the Health Services intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. Assigned amounts represent intended uses established by the Health Services Board.

Unassigned - the residual classification for the General Fund; includes all spendable amounts not contained in the other fund balance classifications.

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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

8. Classification of Fund Balances (Continued)

The Health Services applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

9. 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. Change in Accounting Principles

During the year ended December 31, 2015, the Health Services adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

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

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1. Summary of Significant Accounting Policies

E. Change in Accounting Principles (Continued)

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, modifies the measure of payroll that is presented in the required supplementary information schedules.

GASB Statements 68 and 71 require the Health Services to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the Health Services' net pension liability and related deferred outflows of resources.

	Governmental Activities
Net Position, January 1, 2015, as previously reported	\$ 743,164
Change in accounting principles	(181,772)
Net Position, January 1, 2015, as restated	\$ 561,392

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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, 2015:

	Expenditures	Budget	Excess
General Fund	\$ 1,531,850	\$ 1,389,088	\$ 142,762

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

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3. Detailed Notes

A. Assets

1. Deposits and Investments

Through agreement with Nicollet County, all of the Health Services' deposit and investment functions are managed by the Nicollet County Finance Department. County policies are applied to the Health Services' portion of pooled deposits and investments.

Minn. Stat. § 118A authorizes Nicollet County to deposit cash in designated financial institutions and make investments. The County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The types of investments available to the County are limited to those authorized by Minn. Stat. §§ 118A.04 and 118A.05.

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, Nicollet County's deposits may not be returned to it. The County's policy is to minimize this risk by obtaining collateral or bond for all uninsured deposits. As of December 31, 2015, \$1,998,009 of the County's deposits (6.8 percent of total cash and investments) were exposed to custodial credit risk.

Additional disclosures as required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, and GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, are disclosed on an entity-wide basis in the Nicollet County Annual Financial Report.

2. Receivables

Receivables for Brown-Nicollet Community Health Services are expected to be collected within the year. No allowance for accounts receivable has been provided because such amounts are not expected to be material.

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

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3. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2015, 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	\$ 717,886	\$ -	\$ -	\$ 717,886
Less: accumulated depreciation for Buildings and improvements	<u>433,201</u>	<u>17,947</u>	<u>-</u>	<u>451,148</u>
Total capital assets depreciated, net	<u>\$ 284,685</u>	<u>\$ (17,947)</u>	<u>\$ -</u>	<u>\$ 266,738</u>
Total Capital Assets, Net	<u>\$ 325,748</u>	<u>\$ (17,947)</u>	<u>\$ -</u>	<u>\$ 307,801</u>

Depreciation expense of \$17,947 was charged to the general government function/program for the year ended December 31, 2015.

B. Liabilities

1. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	<u>\$ 33,142</u>	<u>\$ 26,425</u>	<u>\$ 11,745</u>	<u>\$ 47,822</u>	<u>\$ 21,802</u>

2. Unearned Revenue

The unearned revenue for the year ended December 31, 2015, consists of \$110,724 in licenses and permits revenue.



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

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4. Intergovernmental Revenue

Brown-Nicollet Community Health Services received intergovernmental revenues from the following sources during the year ended December 31, 2015:

Reimbursements for Services	
State - Minnesota Department of Human Services	\$ 61,824
State Grants	
Minnesota Department of Health	\$ 623,585
Minnesota Department of Human Services	61,824
Total State Grants	\$ 685,409
Federal Grants	
Special Supplemental Nutrition Program for Women, Infants, and Children	\$ 236,041
Special Education - Grants for Infants and Families	4,984
Public Health Emergency Preparedness	64,617
Universal Newborn Hearing Screening	3,350
Temporary Assistance for Needy Families	85,016
Maternal and Child Health Services Block Grant to the States	67,743
Total Federal Grants	\$ 461,751
Total Intergovernmental Revenue	\$ 1,208,984

5. Risk Management

Brown-Nicollet Community Health Services is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The Health Services has entered into a joint powers agreement with certain Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The Health Services is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$490,000 per claim in 2015 and \$500,000 per claim in 2016. 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 significantly 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. Defined Benefit Pension Plan

A. Plan Description

All full-time and certain part-time employees of Brown-Nicollet Community Health Services are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

B. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

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

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6. Defined Benefit Pension Plan

B. Benefits Provided (Continued)

The benefit provisions stated in the following paragraph 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 their public service.

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 General Employees Retirement Fund 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 remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For General Employees Retirement Fund members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

C. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015.

In 2015, the Health Services was required to contribute the following percentages of annual covered salary:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.50

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

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6. Defined Benefit Pension Plan

C. Contributions (Continued)

The Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014.

The Health Services' contributions for the General Employees Retirement Fund for the year ended December 31, 2015, were \$18,805. The contributions are equal to the contractually required contributions as set by state statute.

D. Pension Costs

At December 31, 2015, the Health Services reported a liability of \$213,609 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Health Services' proportion of the net pension liability was based on the Health Services' contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Health Services' proportion was 0.0041 percent. It was 0.0041 percent measured as of June 30, 2014. The Health Services recognized pension expense of \$22,201 for its proportionate share of the General Employees Retirement Fund's pension expense.

The Health Services reported its proportionate share of the General Employees Retirement Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 10,770
Difference between projected and actual investment earnings	20,221	-
Changes in proportion	-	9,258
Contributions paid to PERA subsequent to the measurement date	9,443	-
Total	\$ 29,664	\$ 20,028

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

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6. Defined Benefit Pension Plan

D. Pension Costs (Continued)

A total of \$9,443 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ (1,621)
2017	(1,621)
2018	(1,621)
2019	5,056

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. The cost of living benefit increases for retirees was assumed to be 1.0 percent effective every January 1 through 2035, and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

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

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6. Defined Benefit Pension Plan

E. Actuarial Assumptions (Continued)

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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6. Defined Benefit Pension Plan (Continued)

G. Pension Liability Sensitivity

The following presents the Health Services' proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the Health Services' proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 335,869	\$ 213,609	\$ 112,641

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. 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, St. Paul, Minnesota 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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

*EXHIBIT A-1*

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PERA GENERAL EMPLOYEES RETIREMENT FUND  
DECEMBER 31, 2015**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>Covered Payroll (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2015	0.0041%	\$ 213,609	\$ 238,426	89.59%	78.19%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

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

*EXHIBIT A-2*

**SCHEDULE OF CONTRIBUTIONS  
PERA GENERAL EMPLOYEES RETIREMENT FUND  
DECEMBER 31, 2015**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b-a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
2015	\$ 18,805	\$ 18,805	\$ -	\$ 250,730	7.50%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The Health Services' year-end is December 31.

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REBECCA OTTO  
STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Health Services Board  
Brown-Nicollet Community Health Services  
St. Peter, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of the governmental activities and the General Fund of Brown-Nicollet Community Health Services as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Health Services' basic financial statements and have issued our report thereon dated October 13, 2016.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the Health Services does not administer any tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Brown-Nicollet Community Health Services failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Health Services' noncompliance with the above referenced provisions.

This report is intended solely for the information and use of the Health Services Board and management of Brown-Nicollet Community Health Services and the State Auditor 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

October 13, 2016

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