

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

BROWN-NICOLLET COMMUNITY
HEALTH SERVICES
ST. PETER, MINNESOTA

YEAR ENDED DECEMBER 31, 2012

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

Year Ended December 31, 2012



**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
2012**

<u>Office</u>	<u>Name</u>
Board Members	
Brown County Commissioners	
Member	James Berg
Member	Scott Windschitl
Treasurer	Andrew Lochner
Chair	Dennis Potter
Member	Richard Seeboth
Nicollet County Commissioners	
Vice-Chair	Bruce Beatty
Member	Dave Haack
Member	Marie Dranttel
Member	Jack Kolars
Clerk	James Stenson
Fiscal Administrator	Bridgette Kennedy
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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Brown-Nicollet Community Health Services as of and for the year ended December 31, 2012, 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 of 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 each major fund of Brown-Nicollet Community Health Services as of December 31, 2012, and the respective changes in financial position thereof and the respective budgetary comparisons for the General Fund and Water Quality Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 7, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(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, 2012. We encourage readers to consider the information presented here.

FINANCIAL HIGHLIGHTS

- On December 31, 2012, our total assets were \$988,011, and our total liabilities were \$271,743. We showed a net position of \$716,268, of which \$320,718 is invested in capital assets.
- Our income is mainly state and federal grants, fees from our licensing program, and rental income.
- We have no debt or obligations to citizens or creditors.
- Long-term liabilities are for compensated absences.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

The Statement of Net Position presents information on all of the Health Services' assets and liabilities, with the difference between the two 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 individual funds of Brown-Nicollet Community Health Services--not the Health Services as a whole. The Health Services reports two funds--the General Fund and the Water Quality Special Revenue Fund--both of which are considered governmental funds.

The focus of governmental fund presentation is how money flows into and out of the funds and balances left at year-end that are available for spending. Governmental funds use the modified accrual method of accounting, which measures cash and all other financial assets that can be readily converted to cash. The fund statements provide a detailed short-term view of the Health Services' operations and the basic services it provides. Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Health Services' programs. We describe the relationship (or differences) between the funds and governmental activities in reconciliations on Exhibits 4 and 6.

Notes to the Financial Statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found directly after Exhibit 8.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Governmental Activities

Net position may, over time, be a useful indicator of the government's financial position. In the case of the Health Services, assets exceeded liabilities by \$716,268.

**Table 1
Governmental Net Position**

	2012	2011
Current and other assets	\$ 667,293	\$ 624,504
Capital assets	320,718	337,663
Total Assets	\$ 988,011	\$ 962,167
Current liabilities	\$ 234,766	\$ 171,992
Long-term liabilities	36,977	38,175
Total Liabilities	\$ 271,743	\$ 210,167
Net Position		
Invested in capital assets	\$ 320,718	\$ 337,663
Restricted for health	2,390	3,207
Unrestricted	393,160	411,130
Total Net Position	\$ 716,268	\$ 752,000

The Health Services' net position decreased by \$35,732, or five percent, from \$752,000 to \$716,268.

Current assets and current liabilities increased from the prior year as a result of there being more grant funds on hand due to other local governments and an increase in collection of prepaid food and beverage licenses. Capital assets decreased slightly due to the depreciation expense incurred. The Health Services' long-term liabilities, which consist of compensated absences, remained relatively unchanged from the prior year.

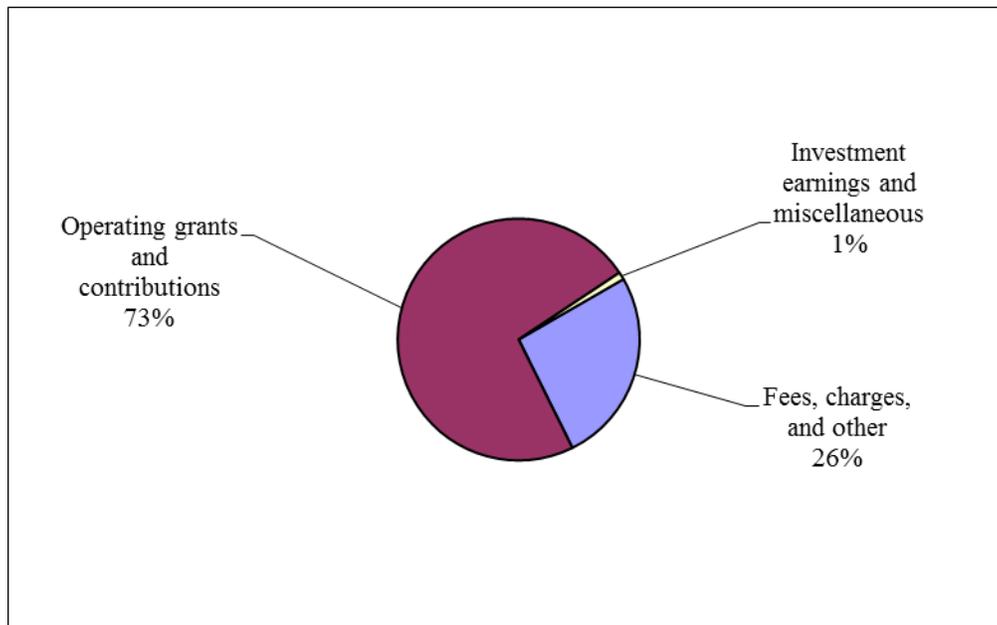
**Table 2
Changes in Net Position**

	2012	2011
Revenues		
Program revenues		
Fees, charges, and other	\$ 284,890	\$ 280,595
Operating grants and contributions	810,396	957,892
General revenues		
Investment earnings	1,421	-
Miscellaneous	11,720	4,624
Total Revenues	\$ 1,108,427	\$ 1,243,111

	<u>2012</u>	<u>2011</u>
Expenses		
Program expenses		
General government	\$ 89,803	\$ 49,571
Health	<u>1,054,356</u>	<u>1,158,127</u>
Total Expenses	<u>\$ 1,144,159</u>	<u>\$ 1,207,698</u>
Increase (Decrease) in Net Position	\$ (35,732)	\$ 35,413
Net Position - January 1	<u>752,000</u>	<u>716,587</u>
Net Position - December 31	<u><u>\$ 716,268</u></u>	<u><u>\$ 752,000</u></u>

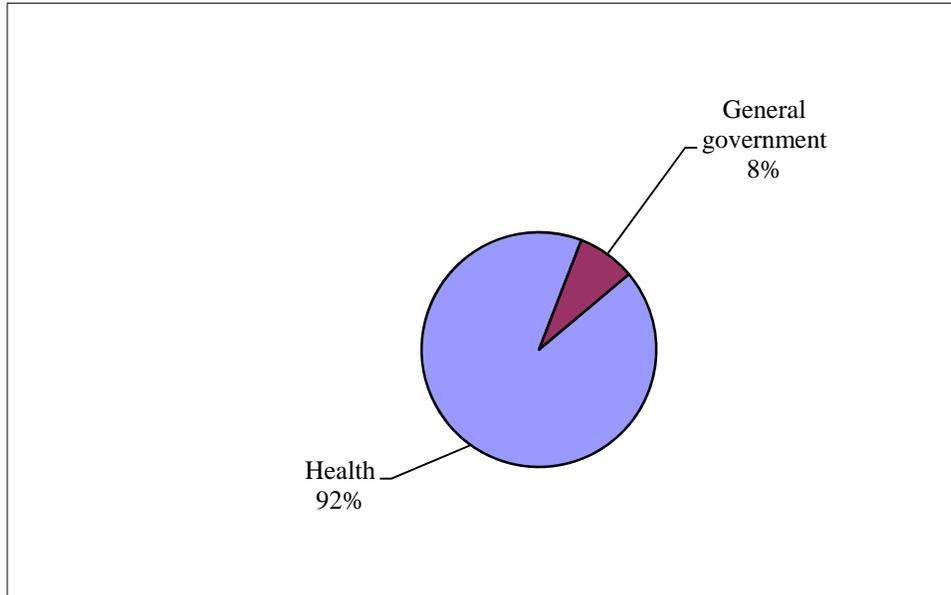
Our largest revenues were from licenses and permits and intergovernmental sources. The total decrease in revenue of \$134,684 is due in most part to the completion of the Statewide Health Improvement Plan (SHIP) grant, and a decrease in the Public Health Preparedness funding.

2012 Revenues



Expenses decreased \$63,539, due to the completion of the SHIP grant. This decrease was partially offset by increases in expenses related to building repairs and budgeted increases in costs for the Environmental Health and Family Planning programs.

2012 Expenses



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

The focus of the Health Services' governmental funds is to provide information on balances of expendable resources. Such information is useful in assessing the Health Services' financing requirements. In particular, 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.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Elixir Building budget was revised in 2012 to reflect additional building maintenance and repair costs. Both revenues and expenditures were relatively close to budgeted amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Our capital assets decreased by \$16,945 as a result of depreciation expense.

Table 3
Capital Assets
(Net of Depreciation)

	<u>2012</u>	<u>2011</u>
Capital Assets		
Land	\$ 41,063	\$ 41,063
Building	<u>279,655</u>	<u>296,600</u>
Capital Assets, Net	<u>\$ 320,718</u>	<u>\$ 337,663</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 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 remain relatively consistent, as there was no change in fees for 2013.

The 2013 budgets will show no income for any water quality projects; in 2010, the Brown-Nicollet-Cottonwood Water Quality Board dissolved due to lack of funding. All grants were completed; some funds were carried over to cover unemployment, insurance, audit expenses, and basic expenses for the next four years. At the end of 2014, any fund balance remaining in the Water Quality Fund will be dispersed between Brown, Nicollet, and Cottonwood Counties.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and pooled investments	\$ 559,555
Accounts receivable - net	1,644
Due from other governments	68,597
Prepaid items	37,497
Capital assets	
Non-depreciable	41,063
Depreciable assets - net	<u>279,655</u>
Total Assets	<u>\$ 988,011</u>
<u>Liabilities</u>	
Accounts payable	\$ 11,732
Salaries payable	3,540
Due to other governments	94,760
Unearned revenue	124,734
Long-term liabilities	
Due within one year	16,720
Due in more than one year	<u>20,257</u>
Total Liabilities	<u>\$ 271,743</u>
<u>Net Position</u>	
Net investment in capital assets	\$ 320,718
Restricted for health	2,390
Unrestricted	<u>393,160</u>
Total Net Position	<u>\$ 716,268</u>

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

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Change in Net Position</u>
		<u>Fees, Charges, and Other</u>	<u>Operating Grants and Contributions</u>	
<u>Functions/Programs</u>				
Primary government				
Governmental activities				
General government	\$ 89,803	\$ 47,124	\$ 6,401	\$ (36,278)
Health	<u>1,054,356</u>	<u>237,766</u>	<u>803,995</u>	<u>(12,595)</u>
Total Primary Government	<u>\$ 1,144,159</u>	<u>\$ 284,890</u>	<u>\$ 810,396</u>	<u>\$ (48,873)</u>
General Revenues				
Investment earnings				\$ 1,421
Miscellaneous				<u>11,720</u>
Total general revenues				<u>\$ 13,141</u>
Change in net position				\$ (35,732)
Net Position - January 1				<u>752,000</u>
Net Position - December 31				<u>\$ 716,268</u>

FUND FINANCIAL STATEMENTS

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

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General	Water Quality	Total Governmental Funds
<u>Assets</u>			
Cash and pooled investments	\$ 520,848	\$ 38,707	\$ 559,555
Accounts receivable	1,644	-	1,644
Due from other governments	68,597	-	68,597
Prepaid items	37,497	-	37,497
Total Assets	\$ 628,586	\$ 38,707	\$ 667,293
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 10,982	\$ 750	\$ 11,732
Salaries payable	3,540	-	3,540
Due to other governments	94,760	-	94,760
Deferred revenue - unearned	124,734	-	124,734
Total Liabilities	\$ 234,016	\$ 750	\$ 234,766
Fund Balances			
Nonspendable prepaid items	\$ 37,497	\$ -	\$ 37,497
Restricted for children's water festival	-	2,390	2,390
Committed for children's water festival	-	1,500	1,500
Assigned for water quality	-	34,067	34,067
Unassigned	357,073	-	357,073
Total Fund Balances	\$ 394,570	\$ 37,957	\$ 432,527
Total Liabilities and Fund Balances	\$ 628,586	\$ 38,707	\$ 667,293

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

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2012**

Fund balances - total governmental funds (Exhibit 3)	\$ 432,527
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 governmental fund.	320,718
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental fund.	<u>(36,977)</u>
Net Position of Governmental Activities (Exhibit 1)	<u><u>\$ 716,268</u></u>

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

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General</u>	<u>Water Quality</u>	<u>Total Governmental Funds</u>
Revenues			
Licenses and permits	\$ 221,984	\$ -	\$ 221,984
Intergovernmental	820,505	-	820,505
Charges for services	15,782	-	15,782
Gifts and contributions	-	3,500	3,500
Investment earnings	1,421	-	1,421
Miscellaneous	58,844	-	58,844
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Total Revenues	\$ 1,118,536	\$ 3,500	\$ 1,122,036
Expenditures			
Current			
General government	\$ 72,858	\$ -	\$ 72,858
Health	376,490	6,735	383,225
Intergovernmental	672,329	-	672,329
	<hr/>	<hr/>	<hr/>
Total Expenditures	\$ 1,121,677	\$ 6,735	\$ 1,128,412
Net Change in Fund Balance	\$ (3,141)	\$ (3,235)	\$ (6,376)
Fund Balance - January 1	397,711	41,192	438,903
	<hr/>	<hr/>	<hr/>
Fund Balance - December 31	\$ 394,570	\$ 37,957	\$ 432,527
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ (6,376)**

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

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred revenue - December 31	\$ -	
Deferred revenue - January 1	<u>(13,609)</u>	(13,609)

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

Current year depreciation		(16,945)
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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 governmental fund.

Change in compensated absences		<u>1,198</u>
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Change in Net Position of Governmental Activities (Exhibit 2) **\$ (35,732)**

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

EXHIBIT 7

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 217,525	\$ 217,525	\$ 221,984	\$ 4,459
Intergovernmental	822,929	826,929	820,505	(6,424)
Charges for services	13,150	13,150	15,782	2,632
Investment earnings	3,300	3,300	1,421	(1,879)
Miscellaneous	48,058	48,058	58,844	10,786
Total Revenues	\$ 1,104,962	\$ 1,108,962	\$ 1,118,536	\$ 9,574
Expenditures				
Current				
General government				
Administration	\$ 24,781	\$ 24,781	\$ 24,709	\$ 72
Elixir Building	15,300	45,742	48,149	(2,407)
Total general government	\$ 40,081	\$ 70,523	\$ 72,858	\$ (2,335)
Health				
Environmental health	\$ 296,249	\$ 296,249	\$ 302,099	\$ (5,850)
Family planning	83,000	83,000	70,392	12,608
Statewide health implementation plan	4,993	4,993	-	4,993
PHEP special project	-	4,000	3,999	1
Total health	\$ 384,242	\$ 388,242	\$ 376,490	\$ 11,752
Intergovernmental				
Brown County contract payments	\$ 301,521	\$ 301,521	\$ 331,992	\$ (30,471)
Nicollet County contract payments	347,691	347,691	340,337	7,354
Total intergovernmental	\$ 649,212	\$ 649,212	\$ 672,329	\$ (23,117)
Total Expenditures	\$ 1,073,535	\$ 1,107,977	\$ 1,121,677	\$ (13,700)
Net Change in Fund Balance	\$ 31,427	\$ 985	\$ (3,141)	\$ (4,126)
Fund Balance - January 1	397,711	397,711	397,711	-
Fund Balance - December 31	\$ 429,138	\$ 398,696	\$ 394,570	\$ (4,126)

The notes to the financial statements are an integral part of this statement.

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

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
WATER QUALITY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Gifts and contributions	\$ 2,500	\$ 2,500	\$ 3,500	\$ 1,000
Expenditures				
Current				
Health				
Water quality	\$ 8,100	\$ 8,100	\$ 2,418	\$ 5,682
Children's water festival	4,750	4,750	4,317	433
Total Expenditures	\$ 12,850	\$ 12,850	\$ 6,735	\$ 6,115
Net Change in Fund Balance	\$ (10,350)	\$ (10,350)	\$ (3,235)	\$ 7,115
Fund Balance - January 1	41,192	41,192	41,192	-
Fund Balance - December 31	\$ 30,842	\$ 30,842	\$ 37,957	\$ 7,115

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

1. Summary of Significant Accounting Policies

Brown-Nicollet Community Health Services' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2012. 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 Service Board was established pursuant to Minn. Stat. §§ 402.01-402.10. The pilot study program was started in April 1974. Brown, Nicollet, and Sibley Counties entered into a joint powers agreement (Minn. Stat. § 471.59) effective July 1, 1975. Sibley County was granted permission to withdraw from the Human Service Board effective July 1, 1976.

On January 1, 1991, the Human Service Board was legally reorganized into Brown-Nicollet Community Health Services. The organization functions as a community health service organization. As required by accounting principles generally accepted in the United States of America, these financial statements present Brown-Nicollet Community Health Services (primary government) and its component unit for which the Health Services is financially accountable. The Health Services is governed by the ten County Commissioners of Brown and Nicollet Counties. Management consists of an administrator, an environmental health director, and the nursing directors from Brown and Nicollet Counties.

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

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

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Blended Component Unit

Brown-Nicollet Community Health Services has one blended component unit. The blended component unit is a legally separate organization so intertwined with the Health Services that it is, in substance, the same as the Health Services and, therefore, is reported as if it were part of the Health Services.

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the Health Services. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities.

In the government-wide statement of net 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) net investment in capital assets, (2) restricted, and (3) unrestricted.

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The Health Services reports the following major funds:

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

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

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

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

D. Assets, Liabilities, and Net Position or Equity

1. Cash

Cash is on deposit with Nicollet County.

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
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, 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

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

4. Deferred Revenue

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

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

5. Classification of Net Position

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

Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

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 net investment in capital assets or restricted components.

6. 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 governmental funds. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, or 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.

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

6. Classification of Fund Balances (Continued)

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or 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 (ordinance or 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. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Health Services Board.

Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

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.

7. 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**

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, 2012.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	<u>\$ 1,121,677</u>	<u>\$ 1,107,977</u>	<u>\$ 13,700</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. The types of investments available to the County are authorized by Minn. Stat. §§ 118A.04 and 118A.05. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

2. Receivables

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

**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, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 41,063	\$ -	\$ -	\$ 41,063
Capital assets depreciated				
Buildings and improvements	\$ 677,792	\$ -	\$ -	\$ 677,792
Less: accumulated depreciation for Buildings and improvements	<u>381,192</u>	<u>16,945</u>	<u>-</u>	<u>398,137</u>
Total capital assets depreciated, net	<u>\$ 296,600</u>	<u>\$ (16,945)</u>	<u>\$ -</u>	<u>\$ 279,655</u>
Total Capital Assets, Net	<u>\$ 337,663</u>	<u>\$ (16,945)</u>	<u>\$ -</u>	<u>\$ 320,718</u>

Depreciation expense of \$16,945 was charged to the general government function/program for the year ended December 31, 2012.

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

3. Detailed Notes (Continued)

B. Liabilities

1. Operating Leases

Brown-Nicollet Community Health Services has entered into an operating lease for its current office space effective through December 31, 2015. The lease is expected to continue or be replaced with a similar lease. Total lease payments for the year ended December 31, 2012, were \$12,000. The future minimum lease payments are as follows:

Year Ending December 31	Amount
2013	\$ 12,000
2014	12,000
2015	12,000
Total Lease	\$ 36,000

2. Long-Term Liabilities

Changes in compensated absences payable for 2012 were:

January 1	\$ 38,175
Net decrease	(1,198)
December 31	\$ 36,977
Due within one year	(16,720)
Long-Term Portion	\$ 20,257

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

4. Intergovernmental Revenue

Brown-Nicollet Community Health Services received the following state and federal grants for the year ended December 31, 2012, which are shown as intergovernmental revenue in Exhibit 5.

State revenue	
Minnesota Department of Health	\$ 297,072
Minnesota Department of Human Services	<u>60,344</u>
Total state revenue	<u>\$ 357,416</u>
Federal revenue	
Special Supplemental Nutrition Program for Women, Infants, and Children	\$ 203,727
Public Health Emergency Preparedness	45,094
Universal Newborn Hearing Screening	1,425
Immunization Cooperative Agreements	1,350
Temporary Assistance for Needy Families	89,313
Medical Assistance Program	60,344
Maternal and Child Health Services Block Grant to the States	<u>61,836</u>
Total federal revenue	<u>\$ 463,089</u>
Total Intergovernmental Revenue	<u><u>\$ 820,505</u></u>

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.

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

5. Risk Management (Continued)

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 \$460,000 per claim in 2012 and \$470,000 per claim in 2013. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Health Services in a method and amount to be determined by MCIT.

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

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

6. Pension Plans

A. Plan Description

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

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

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

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

6. Pension Plans

A. Plan Description (Continued)

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

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

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

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The Health Services makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary.

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

6. Pension Plans

B. Funding Policy (Continued)

The Health Services is required to contribute the following percentages of annual covered payroll in 2012:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25

The Health Services' contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund were \$11,394, \$13,026, and \$15,687, respectively.

These contributions are equal to the contractually required contribution rates for each year as set by state statute.

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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

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 each major fund of Brown-Nicollet Community Health Services, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Health Services' basic financial statements and have issued our report thereon dated November 7, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of Brown-Nicollet Community Health Services' financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness because Brown-Nicollet Community Health Services has no public debt.

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 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 communication is intended solely for the information and use of the Health Services Board, management, others within 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

November 7, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR