

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

BROWN-NICOLLET COMMUNITY
HEALTH SERVICES
ST. PETER, MINNESOTA

YEAR ENDED DECEMBER 31, 2013

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, 2013



**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
2013**

<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

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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, 2013, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2013, and the respective changes in financial position thereof and the respective budgetary comparisons of the General Fund and the Water Quality Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Changes in Accounting Principles

As discussed in Note 1 to the financial statements, in 2013 the Health Services adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represent changes 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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2014, on our consideration of Brown-Nicollet Community Health Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Brown-Nicollet Community Health Services' internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 24, 2014

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(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, 2013. We encourage readers to consider the information presented here.

FINANCIAL HIGHLIGHTS

- On December 31, 2013, our total assets were \$939,705, and our total liabilities were \$206,948. We showed a net position of \$732,757, of which \$310,496 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 \$732,757.

**Table 1
Governmental Net Position**

	<u>2013</u>	<u>2012</u>
Assets		
Current and other assets	\$ 629,209	\$ 667,293
Capital assets	<u>310,496</u>	<u>320,718</u>
Total Assets	<u>\$ 939,705</u>	<u>\$ 988,011</u>
Liabilities		
Current liabilities	\$ 182,656	\$ 234,766
Long-term liabilities	<u>24,292</u>	<u>36,977</u>
Total Liabilities	<u>\$ 206,948</u>	<u>\$ 271,743</u>
Net Position		
Invested in capital assets	\$ 310,496	\$ 320,718
Restricted for health	5,757	2,390
Unrestricted	<u>416,504</u>	<u>393,160</u>
Total Net Position	<u>\$ 732,757</u>	<u>\$ 716,268</u>

The Health Services' net position increased by \$16,489, or two percent, from \$716,268 to \$732,757.

Current assets and current liabilities decreased from the prior year as a result of there being less grant funds on hand due to other local governments. Capital assets decreased slightly due to the depreciation expense incurred. The Health Services' long-term liabilities, which consist of compensated absences, decreased slightly from the prior year.

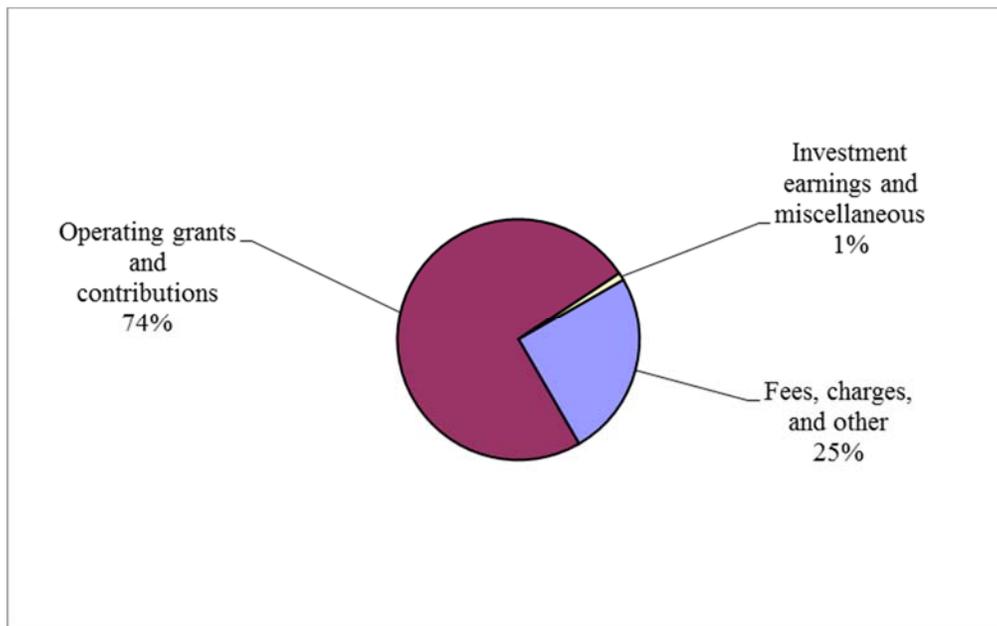
**Table 2
Changes in Net Position**

	<u>2013</u>	<u>2012</u>
Revenues		
Program revenues		
Fees, charges, and other	\$ 286,120	\$ 284,890
Operating grants and contributions	857,865	810,396
General revenues		
Investment earnings	873	1,421
Miscellaneous	<u>6,756</u>	<u>11,720</u>
Total Revenues	<u>\$ 1,151,614</u>	<u>\$ 1,108,427</u>

	<u>2013</u>	<u>2012</u>
Expenses		
Program expenses		
General government	\$ 49,620	\$ 89,803
Health	<u>1,085,505</u>	<u>1,054,356</u>
Total Expenses	<u>\$ 1,135,125</u>	<u>\$ 1,144,159</u>
Increase (Decrease) in Net Position	\$ 16,489	\$ (35,732)
Net Position - January 1	<u>716,268</u>	<u>752,000</u>
Net Position - December 31	<u>\$ 732,757</u>	<u>\$ 716,268</u>

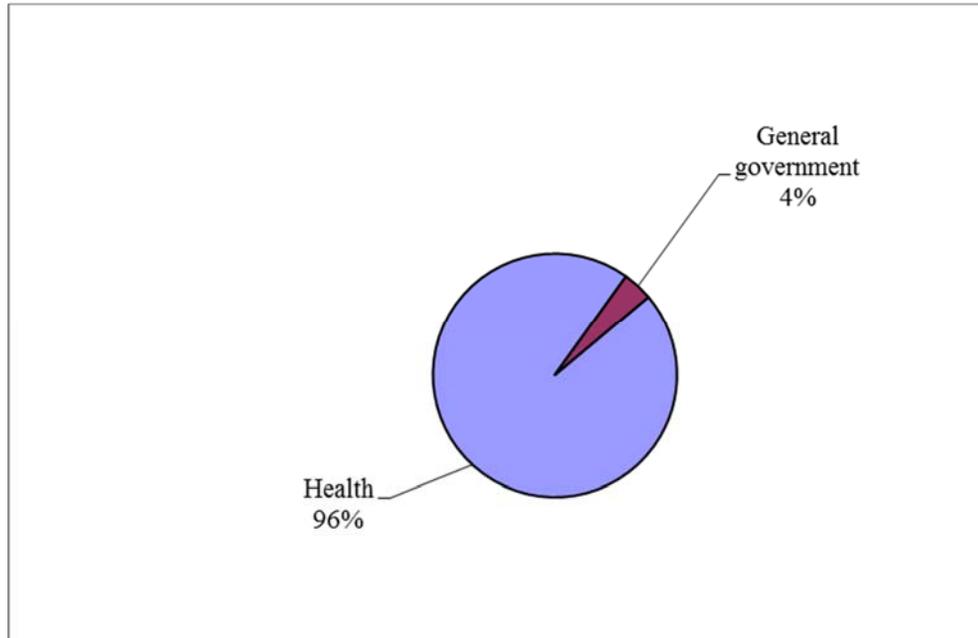
Our largest revenues were from licenses and permits and intergovernmental sources. The total increase in revenue of \$43,187 is due, in most part, to the intergovernmental sources.

2013 Revenues



Expenses decreased \$9,034, due to the decrease of expenses related to building repairs and general expenditures. This decrease was partially offset by increases in expenses for the SHIP grant project.

2013 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 Family Planning and Statewide Health Implementation Plan budgets were revised in 2013 to reflect additional grant funds. The Environmental Health budget was also revised to reflect additional fees and a Food and Drug grant. Both revenues and expenditures were relatively close to budgeted amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Our capital assets decreased by \$10,222 as a result of depreciation expense.

Table 3
Capital Assets
(Net of Depreciation)

	<u>2013</u>	<u>2012</u>
Capital Assets		
Land	\$ 41,063	\$ 41,063
Building	<u>269,433</u>	<u>279,655</u>
Capital Assets, Net	<u>\$ 310,496</u>	<u>\$ 320,718</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 increase in 2014, as a five percent increase was added to all license fees.

The 2014 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 transferred into the Children's Water Festival Department to continue educational programs to all fourth graders in Brown, Nicollet, and Cottonwood Counties. The Community Health Board will oversee those funds.

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, 2013**

		<u>Governmental Activities</u>
<u>Assets</u>		
Cash and pooled investments	\$	546,318
Accounts receivable - net		1,367
Due from other governments		81,524
Capital assets		
Non-depreciable		41,063
Depreciable assets - net		269,433
		<hr/>
Total Assets	\$	<u>939,705</u>
<u>Liabilities</u>		
Accounts payable	\$	1,354
Salaries payable		5,472
Due to other governments		69,290
Unearned revenue		106,540
Long-term liabilities		
Due within one year		13,582
Due in more than one year		10,710
		<hr/>
Total Liabilities	\$	<u>206,948</u>
<u>Net Position</u>		
Net investment in capital assets	\$	310,496
Restricted for health		5,757
Unrestricted		416,504
		<hr/>
Total Net Position	\$	<u>732,757</u>

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

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<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	\$ 49,620	\$ 48,796	\$ 8,498	\$ 7,674
Health	<u>1,085,505</u>	<u>237,324</u>	<u>849,367</u>	<u>1,186</u>
Total Primary Government	<u><u>\$ 1,135,125</u></u>	<u><u>\$ 286,120</u></u>	<u><u>\$ 857,865</u></u>	<u><u>\$ 8,860</u></u>
 General Revenues				
Investment earnings				\$ 873
Miscellaneous				<u>6,756</u>
Total general revenues				<u>\$ 7,629</u>
Change in net position				\$ 16,489
Net Position - January 1				<u>716,268</u>
Net Position - December 31				<u><u>\$ 732,757</u></u>

FUND FINANCIAL STATEMENTS

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

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	General	Water Quality	Total Governmental Funds
<u>Assets</u>			
Cash and pooled investments	\$ 510,234	\$ 36,084	\$ 546,318
Accounts receivable	1,367	-	1,367
Due from other governments	81,524	-	81,524
	\$ 593,125	\$ 36,084	\$ 629,209
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 1,354	\$ -	\$ 1,354
Salaries payable	5,472	-	5,472
Due to other governments	69,290	-	69,290
Unearned revenue	106,540	-	106,540
	\$ 182,656	\$ -	\$ 182,656
 Fund Balances			
Restricted for children's water festival	\$ -	\$ 5,757	\$ 5,757
Assigned for water quality	-	30,327	30,327
Unassigned	410,469	-	410,469
	\$ 410,469	\$ 36,084	\$ 446,553
 Total Liabilities and Fund Balances	\$ 593,125	\$ 36,084	\$ 629,209

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

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2013**

Fund balances - total governmental funds (Exhibit 3)	\$ 446,553
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 funds.	310,496
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(24,292)</u>
Net Position of Governmental Activities (Exhibit 1)	<u><u>\$ 732,757</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, 2013**

	General	Water Quality	Total Governmental Funds
Revenues			
Licenses and permits	\$ 216,069	\$ -	\$ 216,069
Intergovernmental	847,315	-	847,315
Charges for services	21,255	-	21,255
Gifts and contributions	-	10,550	10,550
Investment earnings	873	-	873
Miscellaneous	55,552	-	55,552
	\$ 1,141,064	\$ 10,550	\$ 1,151,614
Expenditures			
Current			
General government	\$ 39,398	\$ -	\$ 39,398
Health	408,234	12,423	420,657
Intergovernmental	677,533	-	677,533
	\$ 1,125,165	\$ 12,423	\$ 1,137,588
Net Change in Fund Balance	\$ 15,899	\$ (1,873)	\$ 14,026
Fund Balance - January 1	394,570	37,957	432,527
Fund Balance - December 31	\$ 410,469	\$ 36,084	\$ 446,553

**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, 2013**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 14,026

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

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

Expenditures for capital assets	\$ 6,895	
Current year depreciation	<u>(17,117)</u>	(10,222)

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>12,685</u>
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Change in Net Position of Governmental Activities (Exhibit 2) \$ 16,489

**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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 218,675	\$ 227,460	\$ 216,069	\$ (11,391)
Intergovernmental	805,557	828,129	847,315	19,186
Charges for services	13,150	13,150	21,255	8,105
Investment earnings	1,425	1,400	873	(527)
Miscellaneous	48,619	48,619	55,552	6,933
Total Revenues	\$ 1,087,426	\$ 1,118,758	\$ 1,141,064	\$ 22,306
Expenditures				
Current				
General government				
Administration	\$ 24,975	\$ 24,975	\$ 24,394	\$ 581
Elixir Building	14,696	14,696	15,004	(308)
Total general government	\$ 39,671	\$ 39,671	\$ 39,398	\$ 273
Health				
Environmental health	\$ 301,899	\$ 301,824	\$ 309,985	\$ (8,161)
Family planning	83,000	103,072	77,954	25,118
Statewide health implementation plan	-	11,442	20,295	(8,853)
PHEP special project	3,208	3,208	-	3,208
Total health	\$ 388,107	\$ 419,546	\$ 408,234	\$ 11,312
Intergovernmental				
Brown County contract payments	\$ 311,095	\$ 311,095	\$ 345,964	\$ (34,869)
Nicollet County contract payments	341,118	341,118	331,569	9,549
Total intergovernmental	\$ 652,213	\$ 652,213	\$ 677,533	\$ (25,320)
Total Expenditures	\$ 1,079,991	\$ 1,111,430	\$ 1,125,165	\$ (13,735)
Net Change in Fund Balance	\$ 7,435	\$ 7,328	\$ 15,899	\$ 8,571
Fund Balance - January 1	394,570	394,570	394,570	-
Fund Balance - December 31	\$ 402,005	\$ 401,898	\$ 410,469	\$ 8,571

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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Gifts and contributions	\$ 6,300	\$ 6,300	\$ 10,550	\$ 4,250
Expenditures				
Current				
Health				
Water quality	\$ 3,100	\$ 3,100	\$ 2,240	\$ 860
Children's water festival	8,990	8,990	10,183	(1,193)
Total Expenditures	\$ 12,090	\$ 12,090	\$ 12,423	\$ (333)
Net Change in Fund Balance	\$ (5,790)	\$ (5,790)	\$ (1,873)	\$ 3,917
Fund Balance - January 1	<u>37,957</u>	<u>37,957</u>	<u>37,957</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 32,167</u>	<u>\$ 32,167</u>	<u>\$ 36,084</u>	<u>\$ 3,917</u>

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

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.

Changes in Accounting Principles

During 2013, the Health Services adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statements 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, modifies and clarifies the requirements for inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.4. for additional information regarding the Health Services' deferred outflows/inflows of resources.

Restatements of December 31, 2012, net position or fund balance were not required as a result of adopting these changes in accounting principles.

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.

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

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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.

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.

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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.

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.

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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 levels 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 as directed by the member counties. These remaining WQB assets and liabilities are estimated to be insignificant to Brown-Nicollet Community Health Services.

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.

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

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, 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.

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.

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

1. Summary of Significant Accounting Policies

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

4. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report 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 no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report 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 no items that qualify for reporting in this category.

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.

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

1. Summary of Significant Accounting Policies

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

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 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 (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 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; 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.

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

1. Summary of Significant Accounting Policies

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

6. 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.

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.

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 following funds had expenditures in excess of budget for the year ended December 31, 2013:

	Expenditures	Budget	Excess
General Fund	\$ 1,125,165	\$ 1,111,430	\$ 13,735
Water Quality Special Revenue Fund	12,423	12,090	333

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

3. Detailed Notes

A. Assets

1. Deposits and Investments

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

2. Receivables

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

3. Capital Assets

Capital asset activity for the year ended December 31, 2013, 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	\$ 6,895	\$ -	\$ 684,687
Less: accumulated depreciation for				
Buildings and improvements	<u>398,137</u>	<u>17,117</u>	<u>-</u>	<u>415,254</u>
Total capital assets depreciated, net	<u>\$ 279,655</u>	<u>\$ (10,222)</u>	<u>\$ -</u>	<u>\$ 269,433</u>
Total Capital Assets, Net	<u>\$ 320,718</u>	<u>\$ (10,222)</u>	<u>\$ -</u>	<u>\$ 310,496</u>

Depreciation expense of \$17,117 was charged to the general government function/program for the year ended December 31, 2013.

**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 be replaced with a similar lease. Total lease payments for the year ended December 31, 2013, were \$12,000. The future minimum lease payments are as follows:

Year Ending December 31	Amount
2014	\$ 12,000
2015	12,000
Total Lease	\$ 24,000

2. Long-Term Liabilities

Changes in compensated absences payable for 2013 were:

January 1	\$	36,977
Net decrease		(12,685)
December 31	\$	24,292
Due within one year		(13,582)
Long-Term Portion	\$	10,710

**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, 2013, which are shown as intergovernmental revenue in Exhibit 5.

State revenue		
Minnesota Department of Health	\$	280,797
Minnesota Department of Human Services		54,097
Total state revenue	\$	334,894
Federal revenue		
Special Supplemental Nutrition Program for Women, Infants, and Children	\$	213,025
Public Health Emergency Preparedness		53,618
Food and Drug Administration - Research		2,500
Immunization Cooperative Agreements		1,800
PPHF 2012 National Public Health Improvement Initiative		3,000
Temporary Assistance for Needy Families		122,440
Medical Assistance Program		54,097
Maternal and Child Health Services Block Grant to the States		61,941
Total federal revenue	\$	512,421
Total Intergovernmental Revenue	\$	847,315

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 \$470,000 per claim in 2013 and \$480,000 per claim in 2014. 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**

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. 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 and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

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. Defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

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

6. Pension Plans

A. Plan Description (Continued)

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, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. 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 2013:

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

The Health Services' contributions for the years ending December 31, 2013, 2012, and 2011, for the General Employees Retirement Fund were \$12,319, \$11,394, and \$13,026, respectively.

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

SUPPLEMENTARY INFORMATION

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

EXHIBIT A-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ <u>213,025</u>
U.S. Department of Health and Human Services		
Direct		
Food and Drug Administration - Research	93.103	\$ 2,500
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	53,618
Immunization Cooperative Agreements	93.268	1,800
PPHF 2012 National Public Health Improvement Initiative	93.507	3,000
Temporary Assistance for Needy Families	93.558	122,440
Maternal and Child Health Services Block Grant to the States	93.994	61,941
Passed Through Minnesota Department of Human Services		
Medical Assistance Program	93.778	<u>54,097</u>
Total U.S. Department of Health and Human Services		\$ <u>299,396</u>
Total Federal Awards		\$ <u>512,421</u>

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Brown-Nicollet Community Health Services under programs of the federal government for the year ended December 31, 2013. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Brown-Nicollet Community Health Services, it is not intended to and does not present the financial position or changes in net position of Brown-Nicollet Community Health Services.

3. Summary of Significant Accounting Policies

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

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

4. Subrecipients

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

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$ 213,025
93.069	Public Health Emergency Preparedness	53,618
93.268	Immunization Cooperative Agreements	1,800
93.507	PPHF 2012 National Public Health Improvement Initiative	3,000
93.558	Temporary Assistance for Needy Families	84,934
93.778	Medical Assistance Program	54,097
93.994	Maternal and Child Health Services Block Grant to the States	61,941
	Total	<u>\$ 472,415</u>

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? **No**

The major programs are:

Special Supplemental Nutrition Program for Women, Infants, and Children	CFDA #10.557
Public Health Emergency Preparedness	CFDA #93.069

The threshold for distinguishing between Types A and B programs was \$300,000.

Brown-Nicollet Community Health Services qualified as a low-risk auditee? **No**

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.



REBECCA OTTO
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

Health Services Board
Brown-Nicollet Community Health Services

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Brown-Nicollet Community Health Services as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Health Services' basic financial statements, and have issued our report thereon dated September 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Brown-Nicollet Community Health Services' internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Services' internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Health Services' financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Minnesota Legal Compliance

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 the 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.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the Health Services' internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health Services' internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 24, 2014

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REBECCA OTTO
STATE AUDITOR

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Health Services Board
Brown-Nicollet Community Health Services

Report on Compliance for Each Major Federal Program

We have audited Brown-Nicollet Community Health Services' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Health Services' major federal programs for the year ended December 31, 2013. Brown-Nicollet Community Health Services' major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Brown-Nicollet Community Health Services' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Brown-Nicollet Community Health Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Health Services' compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Brown-Nicollet Community Health Services complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of Brown-Nicollet Community Health Services is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Health Services' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Health Services' internal control over compliance.

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

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

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 24, 2014

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR