

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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

**YEAR ENDED DECEMBER 31, 2014**

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

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

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

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

**Pension** - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

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

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

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This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

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

**Year Ended December 31, 2014**



**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  
2014**

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

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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1-800-627-3529 (Relay Service)

### INDEPENDENT AUDITOR'S REPORT

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

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Brown-Nicollet Community Health Services as of and for the year ended December 31, 2014, 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, 2014, 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.

### ***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.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2015, 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.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

November 12, 2015

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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, 2014  
(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, 2014. We encourage readers to consider the information presented here.

**FINANCIAL HIGHLIGHTS**

- On December 31, 2014, our total assets were \$984,975, and our total liabilities were \$241,811. We showed a net position of \$743,164, of which \$325,748 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. At the end of 2014, the Water Quality Special Revenue Fund was closed, with all remaining funds being transferred to the General Fund.

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 \$743,164.

**Table 1**  
**Governmental Net Position**

	<u>2014</u>	<u>2013</u>
Assets		
Current and other assets	\$ 659,227	\$ 629,209
Capital assets	<u>325,748</u>	<u>310,496</u>
Total Assets	<u>\$ 984,975</u>	<u>\$ 939,705</u>
Liabilities		
Current liabilities	\$ 208,669	\$ 182,656
Long-term liabilities	<u>33,142</u>	<u>24,292</u>
Total Liabilities	<u>\$ 241,811</u>	<u>\$ 206,948</u>
Net Position		
Invested in capital assets	\$ 325,748	\$ 310,496
Restricted for health	31,645	5,757
Unrestricted	<u>385,771</u>	<u>416,504</u>
Total Net Position	<u>\$ 743,164</u>	<u>\$ 732,757</u>

The Health Services' net position increased by \$10,407, or one percent, from \$732,757 to \$743,164.

Current assets and current liabilities increased from the prior year as a result of there being more state and federal pass-through grants receivable and due to other local governments. Capital assets increased slightly due to a building improvement to the Elixir Building. The Health Services' long-term liabilities, which consist of compensated absences, increased slightly from the prior year.

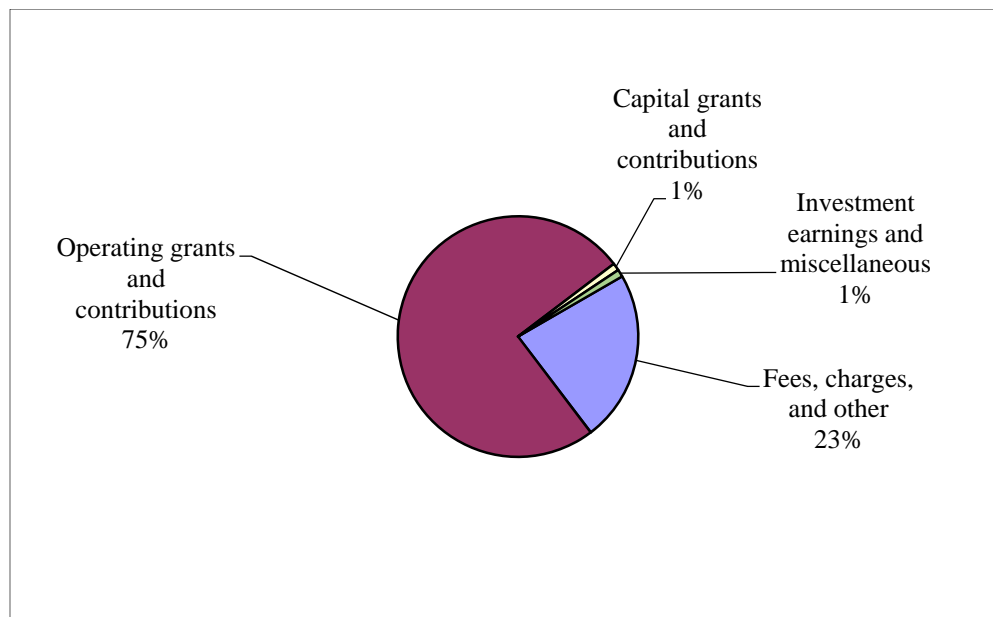
**Table 2**  
**Changes in Net Position**

	<u>2014</u>	<u>2013</u>
Revenues		
Program revenues		
Fees, charges, and other	\$ 305,339	\$ 286,120
Operating grants and contributions	1,009,516	857,865
Capital grants and contributions	19,199	-
General revenues		
Investment earnings	512	873
Miscellaneous	<u>3,382</u>	<u>6,756</u>
Total Revenues	<u>\$ 1,337,948</u>	<u>\$ 1,151,614</u>

	2014	2013
Expenses		
Program expenses		
General government	\$ 53,904	\$ 49,620
Health	1,273,637	1,085,505
Total Expenses	\$ 1,327,541	\$ 1,135,125
Increase (Decrease) in Net Position	\$ 10,407	\$ 16,489
Net Position - January 1	732,757	716,268
Net Position - December 31	\$ 743,164	\$ 732,757

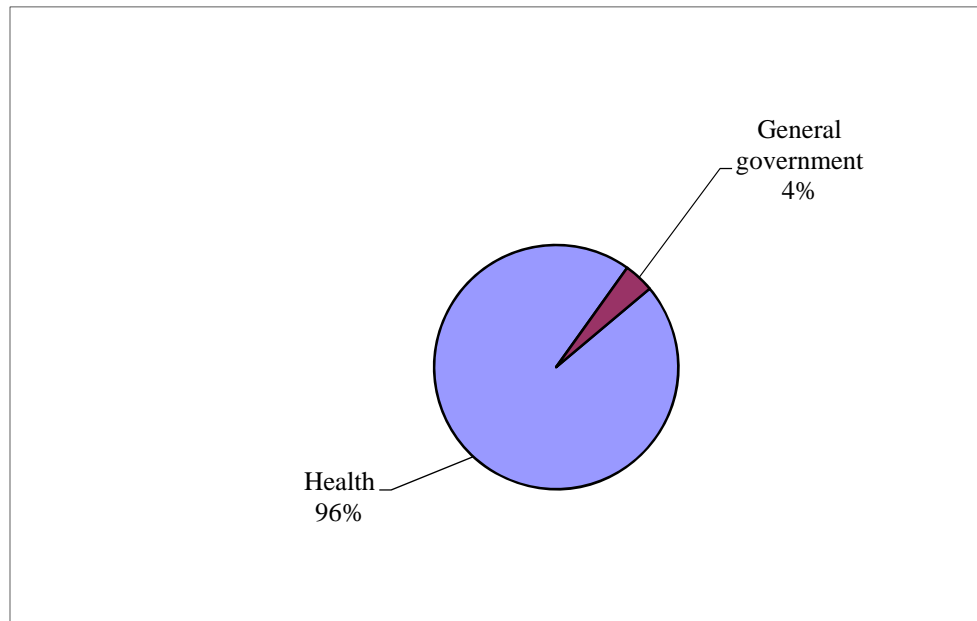
Our largest revenues were from licenses and permits and intergovernmental sources. The total increase in revenue of \$186,334 is due, in most part, to the intergovernmental sources.

#### 2014 Revenues



Expenses increased \$192,416, due to the increase of expenses for the SHIP grant project which started in late 2013 and continued through 2014.

#### 2014 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 Statewide Health Implementation Plan budget was revised in 2014 to reflect additional grant funds. Both revenues and expenditures were relatively close to budgeted amounts. The differences that did occur are due, in most part, to grant funds that were awarded in 2014 that were budgeted in full but only partially spent.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

Our capital assets increased by \$15,252 as a result of a building improvement to the Elixir Building in New Ulm.

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

	<u>2014</u>	<u>2013</u>
Capital Assets		
Land	\$ 41,063	\$ 41,063
Building	<u>284,685</u>	<u>269,433</u>
Capital Assets, Net	<u>\$ 325,748</u>	<u>\$ 310,496</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 2015, as a base fee of \$10.00 was added to each establishment's license.



## **REQUESTS FOR INFORMATION**

This annual financial report is designed to provide a general overview of the Health Services' finances for all those with an interest in our finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to our office, Brown-Nicollet Community Health Services, 622 South Front Street, St. Peter, Minnesota 56082.

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## **BASIC FINANCIAL STATEMENTS**

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## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

***EXHIBIT 1***

**STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

	<b><u>Governmental Activities</u></b>
<b><u>Assets</u></b>	
Cash and pooled investments	\$ 506,683
Accounts receivable	4,086
Due from other governments	148,458
Capital assets	
Non-depreciable	41,063
Depreciable assets - net	<u>284,685</u>
<b>Total Assets</b>	<b><u>\$ 984,975</u></b>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 2,903
Salaries payable	4,659
Due to other governments	109,254
Unearned revenue	91,853
Long-term liabilities	
Due within one year	20,858
Due in more than one year	<u>12,284</u>
<b>Total Liabilities</b>	<b><u>\$ 241,811</u></b>
<b><u>Net Position</u></b>	
Investment in capital assets	\$ 325,748
Restricted for health	31,645
Unrestricted	<u>385,771</u>
<b>Total Net Position</b>	<b><u>\$ 743,164</u></b>

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

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Program Revenues				Net (Expense) Revenue and Change in Net Position
	Expenses	Fees, Charges, and Other	Operating Grants and Contributions	Capital Grants and Contributions	
<b><u>Functions/Programs</u></b>					
<b>Primary government</b>					
<b>Governmental activities</b>					
General government	\$ 53,904	\$ 49,131	\$ 8,561	\$ 19,199	\$ 22,987
Health	<u>1,273,637</u>	<u>256,208</u>	<u>1,000,955</u>	<u>-</u>	<u>(16,474)</u>
<b>Total Primary Government</b>	<b><u>\$ 1,327,541</u></b>	<b><u>\$ 305,339</u></b>	<b><u>\$ 1,009,516</u></b>	<b><u>\$ 19,199</u></b>	<b><u>\$ 6,513</u></b>
<b>General Revenues</b>					
Investment earnings					\$ 512
Miscellaneous					<u>3,382</u>
<b>Total general revenues</b>					<b><u>\$ 3,894</u></b>
<b>Change in net position</b>					<b>\$ 10,407</b>
<b>Net Position - January 1</b>					<b><u>732,757</u></b>
<b>Net Position - December 31</b>					<b><u>\$ 743,164</u></b>



## **FUND FINANCIAL STATEMENTS**

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

***EXHIBIT 3***

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2014**

	<u><b>General</b></u>
 <u><b>Assets</b></u>	
Cash and pooled investments	\$ 506,683
Accounts receivable	4,086
Due from other governments	<u>148,458</u>
<b>Total Assets</b>	<b><u>\$ 659,227</u></b>
 <u><b>Liabilities and Fund Balances</b></u>	
<b>Liabilities</b>	
Accounts payable	\$ 2,903
Salaries payable	4,659
Due to other governments	109,254
Unearned revenue	<u>91,853</u>
<b>Total Liabilities</b>	<b><u>\$ 208,669</u></b>
<b>Fund Balances</b>	
Restricted for children's water festival	\$ 31,645
Unassigned	<u>418,913</u>
<b>Total Fund Balances</b>	<b><u>\$ 450,558</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 659,227</u></b>

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

***EXHIBIT 4***

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$ 450,558</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	325,748
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(33,142)</u>
<b>Net Position of Governmental Activities (Exhibit 1)</b>	<b><u><u>\$ 743,164</u></u></b>

**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, 2014**

	<u>General</u>	<u>Water Quality</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Licenses and permits	\$ 233,997	\$ -	\$ 233,997
Intergovernmental	1,004,516	-	1,004,516
Charges for services	22,211	-	22,211
Gifts and contributions	-	5,000	5,000
Investment earnings	512	-	512
Miscellaneous	52,513	-	52,513
<b>Total Revenues</b>	<b>\$ 1,313,749</b>	<b>\$ 5,000</b>	<b>\$ 1,318,749</b>
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 49,957	\$ -	\$ 49,957
Health	580,100	9,439	589,539
<b>Intergovernmental</b>	675,248	-	675,248
<b>Total Expenditures</b>	<b>\$ 1,305,305</b>	<b>\$ 9,439</b>	<b>\$ 1,314,744</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 8,444</b>	<b>\$ (4,439)</b>	<b>\$ 4,005</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	\$ 31,645	\$ -	\$ 31,645
Transfers out	-	(31,645)	(31,645)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 31,645</b>	<b>\$ (31,645)</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ 40,089</b>	<b>\$ (36,084)</b>	<b>\$ 4,005</b>
<b>Fund Balance - January 1</b>	<b>410,469</b>	<b>36,084</b>	<b>446,553</b>
<b>Fund Balance - December 31</b>	<b>\$ 450,558</b>	<b>\$ -</b>	<b>\$ 450,558</b>

**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, 2014**

<b>Net change in fund balances - total governmental funds (Exhibit 5)</b>	<b>\$</b>	<b>4,005</b>
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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. Also, in the statement of activities, the fair value of capital assets acquired through donation is reported as capital contributions; whereas, in the governmental funds, such contributions do not provide current financial resources and, therefore, are not reported.

Expenditures for capital assets	\$ 14,000	
Capital assets acquired through donation	19,199	
Current year depreciation	<u>(17,947)</u>	15,252

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 funds.

Change in compensated absences		<u>(8,850)</u>
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<b>Change in Net Position of Governmental Activities (Exhibit 2)</b>	<b>\$</b>	<b><u>10,407</u></b>
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**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, 2014**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Licenses and permits	\$ 239,125	\$ 239,125	\$ 233,997	\$ (5,128)
Intergovernmental	926,923	1,088,607	1,004,516	(84,091)
Charges for services	20,350	20,350	22,211	1,861
Investment earnings	1,500	1,500	512	(988)
Miscellaneous	49,252	49,252	52,513	3,261
<b>Total Revenues</b>	<b>\$ 1,237,150</b>	<b>\$ 1,398,834</b>	<b>\$ 1,313,749</b>	<b>\$ (85,085)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Administration	\$ 25,173	\$ 25,173	\$ 26,991	\$ (1,818)
Elixir building	14,700	14,700	22,966	(8,266)
<b>Total general government</b>	<b>\$ 39,873</b>	<b>\$ 39,873</b>	<b>\$ 49,957</b>	<b>\$ (10,084)</b>
<b>Health</b>				
Environmental health	\$ 327,563	\$ 327,563	\$ 327,160	\$ 403
Family planning	112,975	112,975	81,817	31,158
Statewide health implementation plan	88,799	250,483	171,123	79,360
<b>Total health</b>	<b>\$ 529,337</b>	<b>\$ 691,021</b>	<b>\$ 580,100</b>	<b>\$ 110,921</b>
<b>Intergovernmental</b>				
Brown County contract payments	\$ 314,953	\$ 314,953	\$ 319,401	\$ (4,448)
Nicollet County contract payments	332,651	332,651	355,847	(23,196)
<b>Total intergovernmental</b>	<b>\$ 647,604</b>	<b>\$ 647,604</b>	<b>\$ 675,248</b>	<b>\$ (27,644)</b>
<b>Total Expenditures</b>	<b>\$ 1,216,814</b>	<b>\$ 1,378,498</b>	<b>\$ 1,305,305</b>	<b>\$ 73,193</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ 20,336</b>	<b>\$ 20,336</b>	<b>\$ 8,444</b>	<b>\$ (11,892)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	31,645	31,645
<b>Net Change in Fund Balance</b>	<b>\$ 20,336</b>	<b>\$ 20,336</b>	<b>\$ 40,089</b>	<b>\$ 19,753</b>
<b>Fund Balance - January 1</b>	<b>410,469</b>	<b>410,469</b>	<b>410,469</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 430,805</b>	<b>\$ 430,805</b>	<b>\$ 450,558</b>	<b>\$ 19,753</b>

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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
<b>Revenues</b>				
Gifts and contributions	\$ 7,400	\$ 7,400	\$ 5,000	\$ (2,400)
<b>Expenditures</b>				
<b>Current</b>				
<b>Health</b>				
Water quality	\$ 2,450	\$ 2,450	\$ 3,091	\$ (641)
Children's water festival	8,925	8,925	6,348	2,577
<b>Total Expenditures</b>	<b>\$ 11,375</b>	<b>\$ 11,375</b>	<b>\$ 9,439</b>	<b>\$ 1,936</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ (3,975)	\$ (3,975)	\$ (4,439)	\$ (464)
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(31,645)	(31,645)
<b>Net Change in Fund Balance</b>	<b>\$ (3,975)</b>	<b>\$ (3,975)</b>	<b>\$ (36,084)</b>	<b>\$ (32,109)</b>
<b>Fund Balance - January 1</b>	<b>36,084</b>	<b>36,084</b>	<b>36,084</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 32,109</b>	<b>\$ 32,109</b>	<b>\$ -</b>	<b>\$ (32,109)</b>



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

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014**

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**1. Summary of Significant Accounting Policies**

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

**A. Financial Reporting Entity**

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

On January 1, 1991, the Human Services Board was legally reorganized into Brown-Nicollet Community Health Services. The organization functions as a community health services organization. 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**

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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) investment in capital assets, (2) restricted, and (3) unrestricted.

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

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

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

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 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 were processed by Brown-Nicollet Community Health Services. On December 31, 2014, as directed by the member counties, all remaining WQB funds were transferred 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.

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

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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, 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.

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

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1. Summary of Significant Accounting Policies

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

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. Unearned Revenue

Governmental funds and county-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

5. 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.

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

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1. Summary of Significant Accounting Policies

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

6. Classification of Net Position

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

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

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.

7. 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.

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

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1. Summary of Significant Accounting Policies

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

7. Classification of 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 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.

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.

8. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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1. Summary of Significant Accounting Policies (Continued)

E. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the Health Services' calendar year 2015. The Health Services has not yet determined the financial statement impact of adopting this new standard.

2. Stewardship, Compliance, and Accountability

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.

3. Detailed Notes

A. Assets

1. Deposits and Investments

Cash transactions are administered by the Nicollet County Finance Director 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, a requirement with which the County was in compliance at December 31, 2014.



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

3. Detailed Notes

A. Assets (Continued)

2. Receivables

Receivables for Brown-Nicollet Community Health Services are expected to be collected within the year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 41,063	\$ -	\$ -	\$ 41,063
Capital assets depreciated				
Buildings and improvements	\$ 684,687	\$ 33,199	\$ -	\$ 717,886
Less: accumulated depreciation for Buildings and improvements	415,254	17,947	-	433,201
Total capital assets depreciated, net	\$ 269,433	\$ 15,252	\$ -	\$ 284,685
Total Capital Assets, Net	\$ 310,496	\$ 15,252	\$ -	\$ 325,748

Depreciation expense of \$17,947 was charged to the general government function/program for the year ended December 31, 2014.

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, 2014, were \$12,000. The future minimum lease payments for the year ended December 31, 2015, are \$12,000.

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

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3. Detailed Notes

B. Liabilities (Continued)

2. Long-Term Liabilities

Changes in compensated absences liability for 2014 were:

January 1	\$ 24,292
Net increase	<u>8,850</u>
December 31	\$ 33,142
Due within one year	<u>(20,858)</u>
Long-Term Portion	<u><u>\$ 12,284</u></u>

The compensated absences liability is generally liquidated by the General Fund.

C. Interfund Transfers

An interfund transfer of \$31,645 was made from the Water Quality Special Revenue Fund to the General Fund. The Water Quality Special Revenue Fund was closed as of December 31, 2014.

4. Intergovernmental Revenue

Brown-Nicollet Community Health Services received intergovernmental revenues from the following sources during the year ended December 31, 2014:

Reimbursements for Services	
State - Minnesota Department of Human Services	<u>\$ 63,255</u>
State Grants	
Minnesota Department of Health	\$ 474,856
Minnesota Department of Human Services	<u>63,255</u>
Total State Grants	<u><u>\$ 538,111</u></u>

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

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4. Intergovernmental Revenue (Continued)

Federal Grants		
Special Supplemental Nutrition Program for Women, Infants, and Children	\$	218,846
Special Education - Grants for Infants and Families		4,577
Public Health Emergency Preparedness		36,382
Universal Newborn Hearing Screening		6,450
Immunization Cooperative Agreements		1,100
Temporary Assistance for Needy Families		82,073
Maternal and Child Health Services Block Grant to the States		<u>53,722</u>
Total Federal Grants	\$	<u>403,150</u>
Total Intergovernmental Revenue	\$	<u>1,004,516</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.

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 \$480,000 per claim in 2014 and \$490,000 per claim in 2015. 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 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.

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

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6. Pension Plans

A. Plan Description

All full-time and certain part-time employees of Brown-Nicollet Community Health 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 five years of credited service.

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 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.

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

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6. Pension Plans

A. Plan Description (Continued)

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](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. 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 were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014.

In 2014, the Health Services is required to contribute the following percentages of annual covered payroll:

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

The Health Services' contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund were:

<u>2014</u>	<u>2013</u>	<u>2012</u>
\$ 18,186	\$ 12,319	\$ 11,394

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers).

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**ITEM FOR CONSIDERATION**

*GASB Statement No. 68, Accounting and Financial Reporting for Pensions*

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the government-wide statement of financial position. The employer's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Brown-Nicollet Community Health Services' financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by the employers to report the net pension liability and deferred outflows/inflows of resources.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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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  
St. Peter, Minnesota

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, 2014, 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 12, 2015.

#### **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.

## **Other Matters**

Included in the Schedule of Findings and Recommendations is an item for consideration. We believe this information to be of benefit to the Health Services, and we are reporting it for that purpose.

## **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

November 12, 2015