

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

BROWN-NICOLLET COMMUNITY
HEALTH SERVICES
ST. PETER, MINNESOTA

YEAR ENDED DECEMBER 31, 2009

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, 2009



**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
2009**

<u>Office</u>	<u>Name</u>
Board Members	
Brown County Commissioners	
Vice Chair	James Berg
Member	Deborah Dove
Treasurer	Andrew Lochner
Member	Dennis Potter
Member	Richard Seeboth
Nicollet County Commissioners	
Member	Bruce Beatty
Chair	David Haack
Member	Judy Hanson
Member	Jack Kolars
Secretary	James Stenson
Fiscal Administrator	Bridgette Kennedy
Management Team	
Co-Director	Karen Swenson Environmental Director
Co-Director	Karen Moritz Brown County Nursing Director
Co-Director	Julie Carroll Nicollet County Nursing Director

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Health Services Board
Brown-Nicollet Community Health Services

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, 2009, which collectively comprise the Health Services' basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Health Services' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Brown-Nicollet Community Health Services as of December 31, 2009, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund and Water Quality Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated May 7, 2010, 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, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 7, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009
(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, 2009. We encourage readers to consider the information presented here.

FINANCIAL HIGHLIGHTS

- On December 31, 2009, our total assets were \$959,258, and our total liabilities were \$296,596. We showed net assets of \$662,662, of which \$384,798 is invested in capital assets.
- Our income is mainly state and federal grants, fees from our licensing program, and charges for services.
- We have no debt or obligations to citizens or creditors.
- Long-term liabilities are for compensated absences.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The financial statements comprise three components: (1) government-wide financial statements, (2) fund 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 Assets presents information on all of the Health Services' assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Health Services is improving or deteriorating.

The Statement of Activities presents information showing how the Health Services' net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Health Services that are principally supported by fees and grants. The activities of the Health Services include environmental health, public health, surface and ground water monitoring and protection. There are no business-type activities within the Health Services.

Fund Financial Statements

These statements provide detailed information about the 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 assets may, over time, be a useful indicator of the government's financial position. In the case of the Health Services, assets exceeded liabilities by \$662,662.

**Table 1
Governmental Net Assets**

	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 574,460	\$ 576,149
Capital assets	<u>384,798</u>	<u>373,866</u>
Total Assets	\$ 959,258	\$ 950,015
Current liabilities	\$ 250,976	\$ 239,579
Long-term liabilities	<u>45,620</u>	<u>40,847</u>
Total Liabilities	\$ 296,596	\$ 280,426
Net Assets		
Invested in capital assets	\$ 384,798	\$ 373,866
Restricted for health	6,489	4,952
Unrestricted	<u>271,375</u>	<u>290,771</u>
Total Net Assets	<u>\$ 662,662</u>	<u>\$ 669,589</u>

The Health Services' net assets decreased by \$6,927, or one percent, from \$669,589 to \$662,662.

Current assets and current liabilities remained relatively unchanged from the prior year. Capital assets increased by the net of building improvements made and depreciation expense incurred. The Health Services' long-term liabilities, which consist of compensated absences, remained relatively unchanged from the prior year.

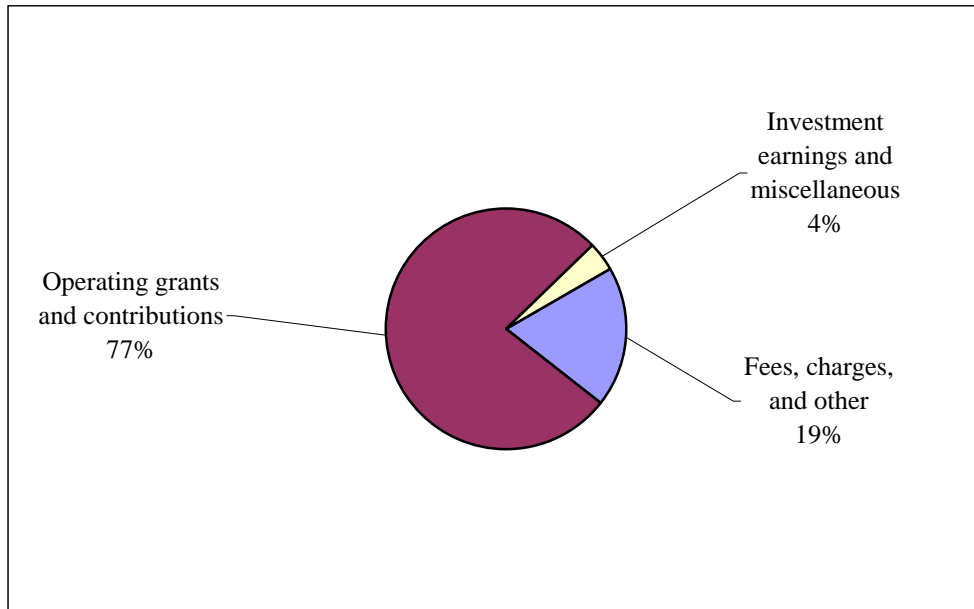
**Table 2
Changes in Net Assets**

	<u>2009</u>	<u>2008</u>
Revenues		
Program revenues		
Fees, charges, and other	\$ 283,377	\$ 232,547
Operating grants and contributions	1,119,521	967,729
General revenues		
Investment earnings	5,733	12,142
Miscellaneous	<u>47,031</u>	<u>52,356</u>
Total Revenues	<u>\$ 1,455,662</u>	<u>\$ 1,264,774</u>

	<u>2009</u>	<u>2008</u>
Expenses		
Program expenses		
General government	\$ 51,696	\$ 55,381
Health	<u>1,410,893</u>	<u>1,227,431</u>
Total Expenses	<u>\$ 1,462,589</u>	<u>\$ 1,282,812</u>
Increase (Decrease) in Net Assets	\$ (6,927)	\$ (18,038)
Net Assets - January 1	<u>669,589</u>	<u>687,627</u>
Net Assets - December 31	<u>\$ 662,662</u>	<u>\$ 669,589</u>

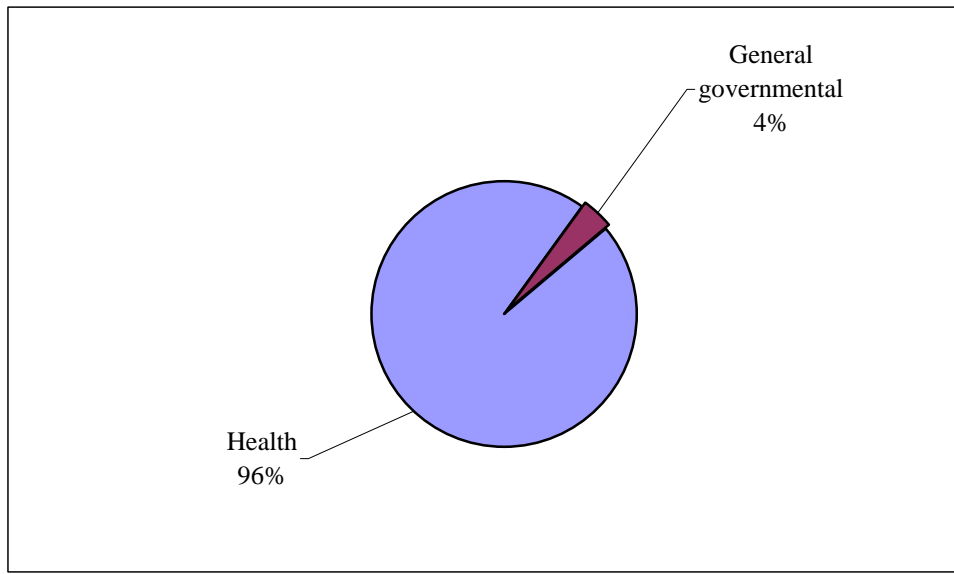
Our largest revenues were from licenses and permits and intergovernmental sources. The total increase in revenue of \$190,888 is due in most part to various new grants, both federal and state.

2009 Revenues



Expenses increased \$179,777, with large increases in intergovernmental payments. Intergovernmental payments increased because of payments to Brown and Nicollet Counties for various pass-through grants. Along with the increase in intergovernmental payments, new grants were received which increased expenses in the areas of salaries and professional services. Additionally, in 2009, major “go green” improvements were made to the Elixir Building.

2009 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, unreserved fund balance may serve as a useful measure of net resources available for spending at the end of the fiscal year or to be carried into the next year’s budgets.

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

Some changes were made to the budget during 2009. Revised budgets were approved by the Board at the January 2010 meeting. Both revenues and expenditures were relatively close to the budgeted amounts. The differences that did occur are due in most part to grant funds that were awarded in 2009 that were budgeted in full but only partially spent.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Our capital assets increased by \$10,932 as a result of the improvements on the Elixir Building and the purchase of new equipment.

Table 3
Capital Assets
(Net of Depreciation)

	<u>2009</u>	<u>2008</u>
Capital Assets		
Land	\$ 41,063	\$ 41,063
Building	330,490	313,267
Machinery, furniture, and equipment	<u>13,245</u>	<u>19,536</u>
Capital Assets, Net	<u>\$ 384,798</u>	<u>\$ 373,866</u>

Debt Administration

At year-end, the Health Services did not have any outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Health Services Board is both state and federal budget-responsive. The Board operates as the applicant agency for the two member counties and receives funding for various federal and state public health programs from the Minnesota Department of Health, Minnesota Department of Human Services, Minnesota Pollution Control Agency, and Minnesota Board of Water and Soil Resources on a noncompetitive population needs-based formula or through a competitive grant application process. Funding will fluctuate according to state and federal actions and population changes.

Funding from license fees and fees for service will remain relatively consistent, as there was no change in fees for 2010.

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 ASSETS
DECEMBER 31, 2009**

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and pooled investments	\$ 473,985
Accounts receivable - net	452
Due from other governments	100,023
Capital assets	
Non-depreciable	41,063
Depreciable assets - net	343,735
	\$ 959,258
<u>Liabilities</u>	
Accounts payable	\$ 18,886
Salaries payable	6,268
Due to other governments	87,595
Unearned revenue	138,227
Long-term liabilities	
Due within one year	24,036
Due in more than one year	21,584
	\$ 296,596
<u>Net Assets</u>	
Invested in capital assets	\$ 384,798
Restricted for health	6,489
Unrestricted	271,375
	\$ 662,662

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

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>Functions/Programs</u>		<u>Fees, Charges, and Other</u>	<u>Operating Grants and Contributions</u>	
Primary government				
Governmental activities				
General government	\$ 51,696	\$ 2,978	\$ 8,390	\$ (40,328)
Health	<u>1,410,893</u>	<u>280,399</u>	<u>1,111,131</u>	<u>(19,363)</u>
Total Primary Government	<u><u>\$ 1,462,589</u></u>	<u><u>\$ 283,377</u></u>	<u><u>\$ 1,119,521</u></u>	<u><u>\$ (59,691)</u></u>
General Revenues				
Investment earnings				\$ 5,733
Miscellaneous				<u>47,031</u>
Total general revenues				<u><u>\$ 52,764</u></u>
Change in net assets				<u><u>\$ (6,927)</u></u>
Net Assets - January 1				<u><u>669,589</u></u>
Net Assets - December 31				<u><u>\$ 662,662</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, 2009**

	General	Water Quality	Total Governmental Funds
<u>Assets</u>			
Cash and pooled investments	\$ 396,248	\$ 77,737	\$ 473,985
Accounts receivable	-	452	452
Due from other governments	100,023	-	100,023
	\$ 496,271	\$ 78,189	\$ 574,460
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 2,276	\$ 16,610	\$ 18,886
Salaries payable	4,592	1,676	6,268
Due to other governments	87,564	31	87,595
Deferred revenue - unearned	120,614	17,613	138,227
	\$ 215,046	\$ 35,930	\$ 250,976
 Fund Balances			
Reserved for			
Donations	\$ -	\$ 6,489	\$ 6,489
Unreserved			
Undesignated	281,225	35,770	316,995
	\$ 281,225	\$ 42,259	\$ 323,484
Total Fund Balances	\$ 281,225	\$ 42,259	\$ 323,484
 Total Liabilities and Fund Balances	\$ 496,271	\$ 78,189	\$ 574,460

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

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2009**

Fund balances - total governmental fund (Exhibit 3)	\$ 323,484
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.	384,798
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental fund.	<u>(45,620)</u>
Net Assets of Governmental Activities (Exhibit 1)	<u><u>\$ 662,662</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, 2009**

	<u>General</u>	<u>Water Quality</u>	<u>Total Governmental Funds</u>
Revenues			
Licenses and permits	\$ 205,601	\$ -	\$ 205,601
Intergovernmental	976,791	139,130	1,115,921
Charges for services	47,193	30,583	77,776
Gifts and contributions	-	3,600	3,600
Investment earnings	4,701	1,032	5,733
Miscellaneous	46,026	1,005	47,031
Total Revenues	\$ 1,280,312	\$ 175,350	\$ 1,455,662
Expenditures			
Current			
General government	\$ 68,919	\$ -	\$ 68,919
Health	404,050	240,064	644,114
Intergovernmental	755,715	-	755,715
Total Expenditures	\$ 1,228,684	\$ 240,064	\$ 1,468,748
Net Change in Fund Balance	\$ 51,628	\$ (64,714)	\$ (13,086)
Fund Balance - January 1	229,597	106,973	336,570
Fund Balance - December 31	\$ 281,225	\$ 42,259	\$ 323,484

**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, 2009**

Net change in fund balances - total governmental fund (Exhibit 5) \$ (13,086)

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	\$ 34,167	
Current year depreciation	<u>(23,235)</u>	10,932

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>(4,773)</u>
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Change in Net Assets of Governmental Activities (Exhibit 2) \$ (6,927)

**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, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 223,034	\$ 223,034	\$ 205,601	\$ (17,433)
Intergovernmental	773,272	1,022,087	976,791	(45,296)
Charges for services	34,490	43,490	47,193	3,703
Investment earnings	8,500	8,500	4,701	(3,799)
Miscellaneous	47,014	47,014	46,026	(988)
Total Revenues	\$ 1,086,310	\$ 1,344,125	\$ 1,280,312	\$ (63,813)
Expenditures				
Current				
General government				
Administration	\$ 26,288	\$ 26,288	\$ 24,616	\$ 1,672
Elixir Building	15,800	25,800	44,303	(18,503)
Total general government	\$ 42,088	\$ 52,088	\$ 68,919	\$ (16,831)
Health				
Environmental health	\$ 302,204	\$ 253,710	\$ 251,223	\$ 2,487
Family planning	97,907	105,760	106,065	(305)
Statewide health implementation plan	-	95,000	46,762	48,238
Total health	\$ 400,111	\$ 454,470	\$ 404,050	\$ 50,420
Intergovernmental				
Brown County contract payments	\$ 311,258	\$ 376,750	\$ 373,029	\$ 3,721
Nicollet County contract payments	301,362	381,832	382,686	(854)
Total intergovernmental	\$ 612,620	\$ 758,582	\$ 755,715	\$ 2,867
Total Expenditures	\$ 1,054,819	\$ 1,265,140	\$ 1,228,684	\$ 36,456
Net Change in Fund Balance	\$ 31,491	\$ 78,985	\$ 51,628	\$ (27,357)
Fund Balance - January 1	229,597	229,597	229,597	-
Fund Balance - December 31	\$ 261,088	\$ 308,582	\$ 281,225	\$ (27,357)

**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, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 267,906	\$ 267,906	\$ 139,130	\$ (128,776)
Charges for services	30,126	30,126	30,583	457
Gifts and contributions	3,000	3,000	3,600	600
Investment earnings	2,000	2,000	1,032	(968)
Miscellaneous	1,200	1,200	1,005	(195)
	<u>1,200</u>	<u>1,200</u>	<u>1,005</u>	<u>(195)</u>
Total Revenues	\$ 304,232	\$ 304,232	\$ 175,350	\$ (128,882)
Expenditures				
Current				
Health				
Little Cottonwood River	\$ 6,280	\$ 7,280	\$ 7,330	\$ (50)
Seven Mile Creek project	16,580	26,130	23,516	2,614
Children's water festival	5,325	5,325	2,063	3,262
Sediment finger printing	40,552	40,552	10,741	29,811
Middle Minnesota	145,345	145,345	79,296	66,049
Control drainage	11,616	11,616	15,420	(3,804)
Clean water legacy	7,997	7,997	9,006	(1,009)
Fish and wildlife	10,393	10,393	-	10,393
Challenge solar grant	14,051	14,051	197	13,854
Agricultural watershed restoration	82,900	82,900	77,972	4,928
Surface water assessment grant	22,027	22,027	14,523	7,504
	<u>22,027</u>	<u>22,027</u>	<u>14,523</u>	<u>7,504</u>
Total Expenditures	\$ 363,066	\$ 373,616	\$ 240,064	\$ 133,552
Net Change in Fund Balance	\$ (58,834)	\$ (69,384)	\$ (64,714)	\$ 4,670
Fund Balance - January 1	106,973	106,973	106,973	-
Fund Balance - December 31	\$ 48,139	\$ 37,589	\$ 42,259	\$ 4,670

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

1. Summary of Significant Accounting Policies

Brown-Nicollet Community Health Services' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2009. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by Brown-Nicollet Community Health Services are discussed below.

A. Financial Reporting Entity

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

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

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

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

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Blended Component Unit

Blended component units are legally separate organizations so intertwined with the Health Services that they are, in substance, the same as the Health Services and, therefore, are reported as if they were part of the Health Services. Brown-Nicollet Community Health Services has one blended component unit.

<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 assets and the statement of activities) display information about the primary government and its component unit. 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 assets, the governmental activities column is 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 assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets.

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The Health Services reports the following major funds:

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

The Water Quality Special Revenue Fund is used to account for the financial resources of the Brown-Nicollet-Cottonwood Water Quality Board, which is considered a blended component unit of 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**

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 and Liabilities

1. Cash

Cash is on deposit with Nicollet County.

2. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by 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.

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

1. Summary of Significant Accounting Policies

D. Assets and Liabilities

2. Capital Assets (Continued)

Capital assets of Brown-Nicollet Community Health Services are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Machinery and equipment	5

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 assets reports both current and noncurrent portions of compensated absences using full accrual accounting. The current portion consists of all vacation, compensatory time, and 25 percent of total vested sick leave. The noncurrent portion consists of 75 percent of total vested sick leave.

4. Deferred Revenue

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

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

1. Summary of Significant Accounting Policies

D. Assets and Liabilities (Continued)

5. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Budgetary Data

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

2. Receivables

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

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

3. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 41,063	\$ -	\$ -	\$ 41,063
Capital assets depreciated				
Buildings and improvements	\$ 643,625	\$ 34,167	\$ -	\$ 677,792
Machinery, furniture, and equipment	<u>37,673</u>	<u>-</u>	<u>-</u>	<u>37,673</u>
Total capital assets depreciated	\$ 681,298	\$ 34,167	\$ -	\$ 715,465
Less: accumulated depreciation for				
Buildings	\$ 330,358	\$ 16,944	\$ -	\$ 347,302
Machinery, furniture, and equipment	<u>18,137</u>	<u>6,291</u>	<u>-</u>	<u>24,428</u>
Total accumulated depreciation	\$ 348,495	\$ 23,235	\$ -	\$ 371,730
Total capital assets depreciated, net	\$ 332,803	\$ 10,932	\$ -	\$ 343,735
Total Capital Assets, Net	<u>\$ 373,866</u>	<u>\$ 10,932</u>	<u>\$ -</u>	<u>\$ 384,798</u>

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

Governmental Activities	
General government	\$ 16,944
Health	<u>6,291</u>
Total Depreciation Expense	<u>\$ 23,235</u>

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

3. Detailed Notes (Continued)

B. Liabilities

1. Operating Leases

Brown-Nicollet Community Health Services has entered into an operating lease for its current office space effective through December 31, 2015. The lease is expected to continue or be replaced with a similar lease. Total lease payments for the year ended December 31, 2009, were \$15,120. The future minimum lease payments are as follows:

Year Ending December 31	Amount
2010	\$ 15,120
2011	15,120
2012	15,120
2013	15,120
2014	15,120
2015	15,120
Total Lease	\$ 90,720

2. Long-Term Liabilities

Changes in compensated absences payable for 2009 were:

January 1	\$	40,847
Net increase		4,773
December 31	\$	45,620
Due within one year		(24,036)
Long-Term Portion	\$	21,584

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

4. Intergovernmental Revenue

Brown-Nicollet Community Health Services received the following state, federal, and local grants for the year ended December 31, 2009, which are shown as intergovernmental revenue in Exhibit 5.

State revenue	
Minnesota Board of Water and Soil Resources	\$ 87,930
Minnesota Department of Health	369,728
Minnesota Pollution Control Agency	39,085
Minnesota Department of Human Services	49,712
	<hr/>
Total State	\$ 546,455
	<hr/>
Federal revenue	
Special Supplemental Nutrition Program for Women, Infants, and Children	\$ 236,789
Nonpoint Source Implementation Grants	12,115
Public Health Emergency Preparedness	75,672
Immunization Grants	2,000
Center for Disease Control and Prevention	50,928
Temporary Assistance for Needy Families	79,992
Medical Assistance Program	49,713
Maternal and Child Health Services Block Grant to the States	62,257
	<hr/>
Total Federal	\$ 569,466
	<hr/>
Total Intergovernmental Revenue	\$ 1,115,921
	<hr/>

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 Insurance Trust (MCIT) to cover its workers' compensation and property and casualty liabilities.

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

5. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$430,000 per claim in 2009 and \$450,000 per claim in 2010. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Health Services in a method and amount to be determined by MCIT.

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

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

6. Pension Plans

A. Plan Description

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

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

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

6. Pension Plans

A. Plan Description (Continued)

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The 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 year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public 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.

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

6. Pension Plans (Continued)

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. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary.

The Health Services is required to contribute the following percentages of annual covered payroll in 2009:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.75

The Health Services' contributions for the years ending December 31, 2009, 2008, and 2007, were \$14,816, \$15,968, and \$15,331, respectively, equal to the contractually required contributions for each year as set by state statute.

7. Subsequent Event

Due to decreases in funding at the state and federal level for appropriate water quality projects and the uncertainty of future funding, the Brown-Nicollet-Cottonwood Water Quality Board is considering the options of either changing the status of the Board to inactive or dissolving. As inactive, the Board would meet once annually to review the status of funding availability, and the Brown-Nicollet Community Health Services Environmental Health Director would continue to provide oversight. With either option, appropriate insurance would be maintained to cover past projects and pending unemployment claims from Water Quality Board staff. Any remaining assets would be distributed in accordance with the joint powers agreement.

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

Schedule 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Brown-Nicollet Community Health Services.
- B. Deficiencies in internal control were disclosed by the audit of financial statements of Brown-Nicollet Community Health Services and are reported in the "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*." Neither were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Brown-Nicollet Community Health Services were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Brown-Nicollet Community Health Services expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- | | |
|--|--------------|
| Special Supplemental Nutrition Program (WIC) | CFDA #10.557 |
| Public Health Emergency Preparedness | CFDA #93.069 |
| Center for Disease Control and Prevention | CFDA #93.283 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Brown-Nicollet Community Health Services was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-1 Preparation of Financial Statements

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

The Health Services prepares cash transaction summaries and most of the year-end accrual information, but does not have the technical knowledge to complete the financial statements. Accordingly, the Health Services' ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control.

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

Client's Response:

We will continue to work with the OSA to acquire the knowledge necessary to prepare annual financial statements.

06-2 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the entity's internal controls. During our audit, we proposed audit adjustments, which were reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

We recommend that Brown-Nicollet Community Health Services continue its efforts in reducing the audit entries by establishing review procedures for the draft financial statements and supporting documentation.

Client's Response:

As we become more familiar with the use of the State Payment Transaction Spreadsheets, we will continue to make improvements, which will lead to fewer audit adjustments.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

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STATE AUDITOR

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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*

Health Services Board
Brown-Nicollet Community Health Services

We have audited 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, 2009, which collectively comprise the Health Services' basic financial statements, and have issued our report thereon dated May 7, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Brown-Nicollet Community Health Services' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Services' internal control over financial reporting.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 06-1 and 06-2, that we consider to be significant deficiencies in internal control over financial reporting. 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 attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Brown-Nicollet Community Health Services' financial statements are free of 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

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness because Brown-Nicollet Community Health Services has no public debt.

The results of our tests indicate that, for the items tested, Brown-Nicollet Community Health Services complied with the material terms and conditions of applicable legal provisions.

Brown-Nicollet Community Health Services' written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the Health Services' responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

May 7, 2010

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Health Services Board
Brown-Nicollet Community Health Services

Compliance

We have audited the compliance of Brown-Nicollet Community Health Services with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Health Services' management. Our responsibility is to express an opinion on the Health Services' compliance based on our audit.

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. Our audit does not provide a legal determination on the Health Services' compliance with those requirements.

In our opinion, Brown-Nicollet Community Health Services complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

Management of Brown-Nicollet Community Health Services is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Health Services' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited 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, 2009, which collectively comprise the Health Services' basic financial statements, and have issued our report thereon dated May 7, 2010. Our audit was performed for the purpose of forming opinions on Brown-Nicollet Community Health Services' financial statements that collectively comprise the Health Services' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

May 7, 2010

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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>236,789</u>
U.S. Environmental Protection Agency		
Passed Through Minnesota Pollution Control Agency Nonpoint Source Implementation Grants	66.460	\$ <u>12,115</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	\$ 75,672
Immunization Grants	93.268	2,000
Center for Disease Control and Prevention	93.283	50,928
Temporary Assistance for Needy Families	93.558	79,992
Maternal and Child Health Services Block Grant to the States	93.994	62,257
Passed Through Minnesota Department of Human Services Medical Assistance Program	93.778	<u>49,713</u>
Total U.S. Department of Health and Human Services		\$ <u>320,562</u>
Total Federal Awards		\$ <u>569,466</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, 2009**

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, 2009. 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 assets 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	\$ 236,789
93.069	Public Health Emergency Preparedness	75,672
93.268	Immunization Grants	2,000
93.283	Center for Disease Control and Prevention	50,928
93.558	Temporary Assistance for Needy Families	79,992
93.994	Maternal and Child Health Services Block Grant to the States	62,257
93.778	Medical Assistance Program	49,713
Total		<u>\$ 557,351</u>