

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

COTTONWOOD-JACKSON
COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2013

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**COTTONWOOD-JACKSON
COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

For the Year Ended December 31, 2013



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

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**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

ORGANIZATION
2013

Office	Name
Board of Health	
Cottonwood County Commissioners	
1st District	Jim Schmidt ¹
2nd District	Kevin Stevens
3rd District	Tom White
4th District	Norman Holmen
5th District	John Oeltjenbruns
Jackson County Commissioners	
1st District	William Tusa
2nd District	Gary Willink
3rd District	Rosemary Schultz ²
4th District	Kim Hummel
5th District	David Henkels
Nursing Director/Administrator	Patricia Stewart

¹Chair 2013

²Chair 2014

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Members of the Joint Health and Human Services Board
Des Moines Valley Health and Human Services

Report on the Financial Statements

We have audited the accompanying financial statements of Cottonwood-Jackson Community Health Services (Health Services) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Cottonwood-Jackson Community 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Basis for Qualified Opinion on Basic Financial Statements

As discussed in Note 1.E.2. to the financial statements, Cottonwood-Jackson Community Health Services has not reported a liability for its other postemployment benefits (OPEB) and, accordingly, has not reported an expense for the current period change in the net OPEB obligation. Accounting principles generally accepted in the United States of America require that OPEB obligations, which arise from an exchange of salaries and benefits for employee service and are part of the compensation that employers offer for services received, and the annual OPEB cost be accrued as liabilities and expenses as the employees earn the right to the benefits. Accruing OPEB costs would increase liabilities, reduce net position, and change the expenses. The amount by which this departure would affect the liabilities, net position, and expenses is not reasonably determinable.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the “Basis for Qualified Opinion on Basic Financial Statements” section above, the financial statements present fairly, in all material respects, the financial position of Cottonwood-Jackson Community Health Services as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 18, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(Unaudited)**

Cottonwood-Jackson Community Health Services' (Health Services) Management's Discussion and Analysis (MD&A) provides an overview of the Health Services' financial activities for the fiscal year ended December 31, 2013. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the Health Services' financial statements.

The Cottonwood-Jackson Community Health Services is a joint powers enterprise operation of Cottonwood and Jackson Counties created to provide community health care for the residents of the two-county area.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Cottonwood-Jackson Community Health Services' basic financial statements consist of two parts: the financial statements and the 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.

The financial statements present the Health Services' financial activities and consist of the following:

- The statement of net position compares the assets and liabilities to give an overall view of the financial health of the Health Services.
- The statement of revenues, expenses, and changes in net position provides information on an aggregate view of the Health Services' finances. All of the current year's revenues and expenses are taken into account, regardless of when the cash was received or paid.
- The statement of cash flows provides sources and uses of cash for the Health Services.

FINANCIAL ANALYSIS

Net Position

	<u>2013</u>	<u>2012</u>
Assets		
Current and other assets	\$ 402,269	\$ 234,545
Capital assets	<u>14,616</u>	<u>20,573</u>
Total Assets	<u>\$ 416,885</u>	<u>\$ 255,118</u>
Liabilities		
Current liabilities	\$ 248,741	\$ 63,725
Noncurrent liabilities	<u>-</u>	<u>60,734</u>
Total Liabilities	<u>\$ 248,741</u>	<u>\$ 124,459</u>
Net Position		
Investment in capital assets	\$ 14,616	\$ 20,573
Restricted	61,366	60,817
Unrestricted	<u>92,162</u>	<u>49,269</u>
Total Net Position	<u>\$ 168,144</u>	<u>\$ 130,659</u>

Current and other assets increased from 2012 by \$167,724 due to the changes in cash and pooled investments, accounts receivable, and due from other governments. The decrease in capital assets reflects the depreciation of the four vehicles owned by the Health Services.

The total liabilities increased from 2012 due to an advance from other governments from Jackson County to pay year-end bills for Cottonwood-Jackson Community Health Services.

Current compensated absences and long-term compensated absences in total increased \$6,425 from 2012. However, in 2013 the entire amount is considered current due to the entity joining Des Moines Valley Health and Human Services as of January 1, 2014.

Cottonwood-Jackson Community Health Services tried to maximize its restricted investments by investing in certificates of deposit with high interest rates as well as adding to the total amount invested. Because of the investment strategies and no scholarship awarded in 2013, the Restricted Net Position increased.

Changes in Revenues, Expenses, and Net Position

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Charges for services	\$ 660,593	\$ 603,555
Intergovernmental	992,524	836,922
Miscellaneous	<u>19,164</u>	<u>33,648</u>
Total Operating Revenues	\$ 1,672,281	\$ 1,474,125
Nonoperating Revenues		
Interest and donations	<u>872</u>	<u>2,833</u>
Total Revenues	<u>\$ 1,673,153</u>	<u>\$ 1,476,958</u>
Operating Expenses		
Professional services	\$ 1,504,017	\$ 1,339,486
Administration	125,694	111,059
Depreciation	<u>5,957</u>	<u>5,957</u>
Total Expenses	<u>\$ 1,635,668</u>	<u>\$ 1,456,502</u>
Change in Net Position	<u>\$ 37,485</u>	<u>\$ 20,456</u>

Total operating revenues increased from 2012 to 2013. Cottonwood-Jackson Community Health Services saw a 9.45 percent increase in charges for services, a 18.59 percent increase in intergovernmental revenue, and a 43.05 percent decrease in miscellaneous revenues. The increase in charges for services was due to an increase in the number of billable visits. Over half of those visits were for Medicare clients, which have a higher reimbursement rate than other insurances. The increase in intergovernmental is due to additional County appropriations of \$62,430 and an increase in Centers for Disease Control and Prevention Investigations and Technical Assistance Grant of \$52,377 from 2012. The decrease in miscellaneous revenues is due to a decreased reimbursement of an overpayment of employee health insurance premiums that was received in 2013. The increase in operating expenses is directly related to an increase in operating revenues.

CAPITAL ASSETS ADMINISTRATION

**Capital Assets
(Net of Depreciation)**

	<u>2013</u>	<u>2012</u>
Capital assets	<u>\$ 14,616</u>	<u>\$ 20,573</u>

Capital assets decreased by \$5,957 due to depreciation expense. Additional capital assets can be found in the notes to the financial statements.

FUTURE EVENTS

Cottonwood-Jackson Community Health Services ceased to exist as of December 31, 2013. As of January 1, 2014, the entity is now part of Des Moines Valley Health and Human Services which is a combination of Cottonwood County Family Services, Jackson County Human Services, and Cottonwood-Jackson Community Health Services

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Cottonwood-Jackson Community Health Services' finances for all those with an interest in its finances. For questions concerning any information provided in this report or requests for additional financial information, contact Patricia A. Stewart, Public Health Director, Des Moines Valley Health and Human Services, 407 - 5th Street, Suite 209, Jackson, Minnesota 56143.

BASIC FINANCIAL STATEMENTS

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**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2013**

Assets

Current assets

Unrestricted assets

Cash and pooled investments	\$ 79,818
Petty cash and change funds	60
Accounts receivable - net	49,612
Due from other governments -net	211,413
	211,413

Total unrestricted current assets **\$ 340,903**

Restricted assets

Cash and pooled investments	\$ 60,903
Accrued interest receivable	463
	463

Total restricted assets **\$ 61,366**

Total current assets **\$ 402,269**

Noncurrent assets

Capital assets	
Depreciable - net	14,616
	14,616

Total Assets **\$ 416,885**

Liabilities

Current liabilities

Accounts payable	\$ 33,550
Salaries payable	29
Advance from other governments	116,716
Compensated absences payable	98,446
	98,446

Total Liabilities **\$ 248,741**

Net Position

Investment in capital assets	\$ 14,616
Restricted for	
Endowments - expendable	15,866
Endowments - nonexpendable	45,500
Unrestricted	92,162
	92,162

Total Net Position **\$ 168,144**

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013**

Operating Revenues	
Charges for services	\$ 660,593
Intergovernmental	
Shared revenues	4,326
State	
Department of Health	221,621
Department of Human Services	30,634
Federal	
Women, Infants, and Children (WIC)	115,938
Medical Reserve Corps Small Grant Program	4,875
Public Health Emergency Preparedness	47,951
Immunization Grants	4,190
Universal Newborn Hearing Screening	300
Centers for Disease Control and Prevention Investigations and Technical Assistance	52,377
Temporary Assistance for Needy Families (TANF)	36,709
Children's Health Insurance Program	181
Medical Assistance Program	30,634
Maternal and Child Health (MCH)	33,754
Social Security Disability Insurance	35
Local	
County appropriations	402,738
Other	6,261
Miscellaneous	19,164
	\$ 1,672,281
Operating Expenses	
Administration	\$ 125,694
Healthy communities	597,686
Infectious disease	38,044
Disaster preparation	44,748
Health services	823,539
Depreciation	5,957
	\$ 1,635,668
	\$ 36,613
Nonoperating Revenues (Expenses)	
Interest income	\$ 697
Gifts and contributions	175
	\$ 872
Increase (Decrease) in Net Position	\$ 37,485
Net Position - January 1	130,659
Net Position - December 31	\$ 168,144

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

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**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 681,636
Intergovernmental	505,211
County appropriations	377,738
Local	6,261
Payments to suppliers	(289,903)
Payments to employees	(1,332,242)
	<u>(1,332,242)</u>
Net cash provided by (used in) operating activities	\$ (51,299)
Cash Flows from Noncapital Financing Activities	
Advance from other governments	\$ 116,716
Contributions	175
	<u>175</u>
Net cash provided by (used in) noncapital financing activities	\$ 116,891
Cash Flows from Investing Activities	
Investment earnings received	\$ 611
	<u>611</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 66,203
Cash and Cash Equivalents at January 1	<u>74,578</u>
Cash and Cash Equivalents at December 31	<u>\$ 140,781</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating Income (Loss)	\$ 36,613
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 5,957
(Increase) decrease in accounts receivable	6,184
(Increase) decrease in due from other governments	(107,619)
Increase (decrease) in accounts payable	24,171
Increase (decrease) in salaries payable	(23,030)
Increase (decrease) in compensated absences payable	6,425
	<u>6,425</u>
Total adjustments	\$ (87,912)
Net Cash Provided by (Used in) Operating Activities	<u>\$ (51,299)</u>

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

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**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

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

1. Summary of Significant Accounting Policies

Cottonwood-Jackson Community Health Services' (Health Services) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2013. 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 the Health Services are discussed below.

A. Financial Reporting Entity

Cottonwood-Jackson Community Health Services operates under Minn. Stat. ch. 145A and was established by a joint powers agreement effective January 1, 1977. The Board of Health is made up of the five elected County Commissioners from both Cottonwood and Jackson Counties.

The primary activities of the Health Services are to protect and promote the health of the general population within the counties by emphasizing the prevention of disease, injury, disability, and preventable death through the promotion of effective coordination and use of community resources, and by extending health services into the community.

The Health Services is not a component unit of the two member counties, nor does it have any component units. The Health Services' financial statements are not included in any member county's financial statements.

On April 21, 2013, Cottonwood-Jackson Community Health Services approved dissolution of the Health Board and will assign all power and duties to the Des Moines Valley Health and Human Services Board effective January 1, 2014, although the agreement recognizes that the entity shall continue to exist after dissolution as long as necessary to conclude the affairs of the entity. Jackson County Human Services formally approved joining the joint agency on March 13, 2012, and Cottonwood County Family Services formally approved joining the joint agency on February 26, 2013.

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

Cottonwood-Jackson Community Health Services participates in joint ventures described in Note 5.D. Cottonwood-Jackson Community Health Services also participates in jointly-governed organizations described in Note 5.E.

B. Basis of Presentation

Cottonwood-Jackson Community Health Services' accounts are organized as an enterprise fund. The operations are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses. Enterprise funds are used to account for: (1) operations that provide a service to citizens financed primarily by charges to users of that service; and (2) activities where the periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Measurement Focus and Basis of Accounting

The Health Services' financial statements 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.

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

D. Budget

An annual budget is prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. This budget is reviewed by the Cottonwood-Jackson Community Health Services' Board of Health and approved by both the Cottonwood County and Jackson County Boards of Commissioners.

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, and Net Position

1. Assets

Cash and Cash Equivalents

For purposes of the statement of cash flows, all cash and highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

Restricted Assets

Certain funds are classified as restricted assets because their use is limited. Included in restricted assets are funds set aside to be used for the Alice Mann Good for People Education and Scholarship Fund and interest receivable for those funds.

Capital Assets and Depreciation

Capital assets are defined by the Health Services as assets with an initial individual cost of \$5,000 or more. Capital assets are recorded at cost and consist of vehicles. Depreciation is provided on the straight-line basis over ten years, the estimated useful lives of the assets.

2. Liabilities

Compensated Absences

Compensated absences are considered expenses when incurred. Earned but unpaid vacation and sick leave that is vested is shown on the statement of net position as a long-term liability. A current portion of the liability is calculated based on a five-year trend analysis.

Other Postemployment Benefits

The Health Services has not calculated its other postemployment benefits (OPEB) obligation in order to report the liability on the statement of net position. Therefore, the change in the net OPEB obligation has not been reported in the statement of revenues, expenses, and changes in net position. These are departures from generally accepted accounting principles.

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Position (Continued)

3. Net Position

Net position is classified in the following categories:

- Investment in capital assets - the amount of net position representing capital assets net of accumulated depreciation.
- Restricted net position - the amount of net position for which external restrictions have been imposed either by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position - the amount of net position that does not meet the definition of restricted or investment in capital assets.

When both restricted and unrestricted resources are available for its use, it is the Health Services' policy to use restricted resources first then unrestricted resources as needed.

F. Revenues and Expenses

1. Operating and Nonoperating Revenues

The Health Services distinguishes operating revenues from nonoperating revenues. Operating revenues generally result from providing services and producing and delivering goods in connection with an activity's principal ongoing operations. Operating revenues include charges for services and intergovernmental operating grants, since they constitute the Health Services' ongoing operations. All revenues not meeting this definition are reported as nonoperating revenues.

2. Expenses

Cottonwood-Jackson Community Health Services recognizes expenses, including compensated absences, when incurred. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets.

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

G. 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 end of 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

Budget

Following is a summary of the budgeted and actual amounts for the year ended December 31, 2013:

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues	\$ 1,603,581	\$ 1,672,281	\$ 68,700
Operating Expenses	<u>1,620,550</u>	<u>1,635,668</u>	<u>(15,118)</u>
Operating Income (Loss)	\$ (16,969)	\$ 36,613	\$ 53,582
Nonoperating Revenues (Expenses)	<u>15,500</u>	<u>872</u>	<u>(14,628)</u>
Net Income (Loss)	<u>\$ (1,469)</u>	<u>\$ 37,485</u>	<u>\$ 38,954</u>

3. Detailed Notes

A. Assets

Deposits and Investments

Reconciliation of the Health Services' total cash as reported in the basic financial statements to deposits, cash on hand, and investments follows:

Petty cash and change funds	\$ 60
Savings and checking	95,221
Certificates of deposit	<u>45,500</u>
Total Deposits and Investments	<u>\$ 140,781</u>

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

3. Detailed Notes

A. Assets

Deposits and Investments (Continued)

The following table presents the Health Services' cash and deposit balances at December 31, 2013:

Unrestricted cash and pooled investments	\$ 79,818
Petty cash and change funds	60
Restricted cash and pooled investments	<u>60,903</u>
Total Cash	<u>\$ 140,781</u>

1. Deposits

Cottonwood-Jackson Community Health Services is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The Health Services is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Health Services' deposits may not be returned to it. The Health Services does not have a deposit policy for custodial credit risk. As of December 31, 2013, the Health Services' deposits were not exposed to custodial credit risk.

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

3. Detailed Notes

A. Assets

Deposits and Investments (Continued)

2. Investments

The Health Services may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less, and;
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

During the year ended December 31, 2013, Cottonwood-Jackson Community Health Services had no investments.

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

3. Detailed Notes

A. Assets (Continued)

Accounts Receivable

A summary of accounts receivable, including allowance for uncollectible accounts at December 31, 2013, is:

Gross accounts receivable	\$ 93,481
Less: allowance for uncollectibles	<u>(43,869)</u>
Net accounts receivable	<u>\$ 49,612</u>

The Health Services did not have any receivables scheduled to be collected beyond one year.

Due From Other Governments

The following amounts were due from other governments at December 31, 2013:

Gross due from other governments	\$ 215,693
Less: allowance for uncollectibles	<u>(4,280)</u>
Net due from other governments	<u>\$ 211,413</u>

Capital Assets

A summary of capital assets at December 31, 2013, follows:

	Balance January 1, 2013	Additions	Deletions	Balance December 31, 2013
Equipment	\$ 59,563	\$ -	\$ -	\$ 59,563
Less: accumulated depreciation	<u>(38,990)</u>	<u>(5,957)</u>	<u>-</u>	<u>(44,947)</u>
Total	<u>\$ 20,573</u>	<u>\$ (5,957)</u>	<u>\$ -</u>	<u>\$ 14,616</u>

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

3. Detailed Notes (Continued)

B. Liabilities

Vacation and Sick Leave

Under Cottonwood-Jackson Community Health Services' personnel policies, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 5 to 20 days per year. Sick leave accrual is 12 days per year.

Unused accumulated vacation 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 them at termination.

Compensated Absences

The net changes in compensated absences for the year ended December 31, 2013 is:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 92,021	\$ 98,644	\$ 92,219	\$ 98,446	\$ 98,446

4. Pension Plans

Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic plan members are not. All new members must participate in the Coordinated Plan and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

4. Pension Plans

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. 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.

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

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

4. Pension Plans (Continued)

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. Cottonwood Jackson Community Health Services makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary.

The Health Services is required to contribute the following percentages of annual covered payroll in 2013:

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

The Health Services' contributions for the years ending December 31, 2013, 2012, and 2011, for the General Employees Retirement Fund were:

<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 70,729	\$ 64,725	\$ 73,210

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

5. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

Cottonwood-Jackson Community Health Services, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Health Services' attorney estimates that the potential claims against the Health Services that would not be covered by insurance would not materially affect the financial statements.

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items (Continued)

B. Risk Management

The Health Services is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Health Services carries commercial insurance. The Health Services has entered into a joint powers agreement with 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. For all other risk, the Health Services carries commercial insurance. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$470,000 per claim in 2013 and \$480,000 per claim in 2014. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Health Services in a method and amount to be determined by MCIT.

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 Southwest/West Central Service Cooperative is a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses; however, a particular member may receive increases or decreases depending on a good or bad year of claims experience. Premiums are determined annually by the Service Cooperative and are based partially on the experience of the Health Services and partially on the experience of the group. The Service Cooperative solicits proposals from carriers and negotiates the contracts.

For health insurance, the Health Services participates in Jackson County's self-insurance program. Jackson County handles its self-insurance in its General Fund. Additional disclosures, as required by GASB Statement No. 10, *Accounting and Reporting for Risk Financing and Related Insurance Issues*, are disclosed on a County-wide basis in the Jackson County Annual Financial Report.

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Risk Management (Continued)

The Health Services did not have a loss exceeding the limits of insurance coverage for any of the past three years. There were no significant reductions in insurance from the previous year.

C. Subsequent Event

On April 21, 2013, Cottonwood-Jackson Community Health Services approved dissolution of the Health Board and will assign all power and duties to the Des Moines Valley Health and Human Services Board effective January 1, 2014. Jackson County formally approved joining the joint agency on March 13, 2012, and Cottonwood County formally approved joining the joint agency on February 26, 2013.

D. Joint Ventures

Cottonwood Family Service Collaborative

The Cottonwood Family Service Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. Cottonwood-Jackson Community Health Services has no operational or financial control over the Collaborative. During 2013, Cottonwood-Jackson Community Health Services paid \$500 to the Collaborative.

Des Moines Valley Health and Human Services (DVHHS)

Cottonwood-Jackson Community Health Services, Cottonwood Family Services, and Jackson County Human Services approved a joint powers agreement in 2013 creating Des Moines Valley Health and Human Services effective January 1, 2014. The governing board consists of five commissioners from each of the participating Counties and the purpose is to provide a combined local board of health, community health board, and human service board.

**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

5. Summary of Significant Contingencies and Other Items (Continued)

E. Jointly-Governed Organizations

Jackson County Children's Mental Health and Family Services Network Collaborative

Jackson County Children's Mental Health and Family Services Network Collaborative Joint Powers Board provides a comprehensive system of collaborative service delivery to improve the ability of families to meet the needs of their children. Jackson County is the fiscal host. During 2013, Cottonwood-Jackson Community Health Services paid \$500 to the Collaborative.

Minnesota Counties Computer Cooperative (MCCC)

Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created MCCC to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems.

The Minnesota Counties Computer Cooperative provides computer programming services for Cottonwood-Jackson Community Health Services. Cottonwood-Jackson Community Health Services pays Jackson County for Information Technology and is included in Jackson County's contribution.

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**COTTONWOOD-JACKSON COMMUNITY HEALTH SERVICES
JACKSON, MINNESOTA**

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

I. INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1999-001

Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: Cottonwood-Jackson Community Health Services (Health Services) lacks proper segregation of duties. One staff person is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: Due to the limited number of office personnel within the Health Services, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Cottonwood-Jackson Community Health Services; however, the Health Services' management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Effect: Inadequate segregation of duties could adversely affect the Health Services' ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The Health Services indicated that due to the limited number of employees, the Health Services cannot adequately segregate accounting duties.

Recommendation: We recommend the Health Services' Board and management be aware of the lack of segregation of accounting functions and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being implemented by staff to the extent possible.

Client's Response:

The Cottonwood-Jackson Board of Health is aware that it is desirable to segregate duties in the accounting department of Cottonwood-Jackson Community Health Services. However, due to the size of the agency, it was not possible nor is it economically feasible to separate the accounting department to the desirable level of control. The Cottonwood-Jackson Board of Health and the Health Services are aware of this lack of segregation of duties and continue to monitor the financial status of the agency.

Effective January 1, 2014, Cottonwood-Jackson Community Health Services merged with Cottonwood County Family Services and Jackson County Human Services to form Des Moines Valley Health and Human Services. With the merger, the accounting staff will increase to eight persons thereby allowing for segregation of duties in the accounting department.

Finding 2010-001

Preparation of Financial Statements

Criteria: The 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 control over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate financial statements, including the related notes to the financial statements.

Condition: As is the case with many small and medium-sized entities, the Health Services has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process.

Context: 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 Health Services' internal control.

Effect: As a result of this condition, the Health Services lacks internal control over the preparation of financial statements in accordance with GAAP.

Cause: This condition was caused by the Health Services' decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally.

Recommendation: We recommend Cottonwood-Jackson Community Health Services obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If the Health Services still intends to have external audit staff assist in preparation then, at a minimum, it must have an individual identified and trained with the expertise to sufficiently review, understand, and approve the Health Services' financial statements, including notes. As an alternative, the Health Services could have an outside consultant assist in preparing its basic financial statements.

Client's Response:

The Cottonwood-Jackson Community Health Service's Fiscal Officer does have the expertise to sufficiently review, understand and approve the Community Health Services' financial statements, including notes. However, due to the demands of the Fiscal Officer position, time does not allow for the preparation of the statements on an annual basis. Thus the financial statements have been prepared by the Office of the State Auditor and approved by the Fiscal Officer.

Effective January 1, 2014, Cottonwood-Jackson Community Health Services merged with Cottonwood County Family Service Agency and Jackson County Department of Human Services to form Des Moines Valley Health and Human Services. The new agency does have the financial staff with the allotted time to complete these reports in-house in addition to sufficiently review, understand and approve the financial statements, including notes.

Finding 2010-002

General Ledger

Criteria: A general ledger is the main accounting record of an entity which includes debits and credits, a double-entry system, for each transaction. Accounting and reporting controls are more efficient and effective when all transactions are accounted for in one centralized general ledger. The Health Services' Board and management are better able to implement and maintain internal controls over one central computerized system than several decentralized systems. Management and employees should have access to assets or records based on the requirements of their positions.

Condition: Cottonwood-Jackson Community Health Services does not maintain a complete and comprehensive general ledger of receipt and disbursement transactions. The Health Services uses Excel spreadsheets to record receipts and cash balances, and the Integrated Financial System (IFS) Account Activity Report is used to account for disbursements.

Context: A centralized general ledger generally provides more uniformity and consistency in accounting for financial transactions. In addition, it allows management to have access to financial information for the entire Health Services as needed to manage and monitor its financial operations.

Effect: Increased audit time and costs to prepare a working trial balance for the Health Services.

Cause: Cottonwood-Jackson Community Health Services maintains an Excel spreadsheet called “General Ledger” which includes summary level data. The “General Ledger” is used by the Health Services to combine the receipts and expenditures from the IFS, Community Health Administrative Management Program (CHAMP), and the Cash Receipts/Accounts Receivable Ledger. Due to limited personnel and time constraints, Cottonwood-Jackson Community Health Services is not able to maintain a double-entry general ledger.

Recommendation: We recommend that the Health Services’ Board provide the necessary directives to management to complete the process of consolidating all transactions into one general ledger system. This would improve efficiencies in maintaining the Health Services’ financial records and preparing required reports.

Client’s Response:

Effective January 1, 2014, Cottonwood-Jackson Community Health Services merged with Cottonwood County Family Service Agency and Jackson County Department of Human Services to form Des Moines Valley Health and Human Services (DVHHS). The new agency will be utilizing one centralized general ledger system. It should be noted that DVHHS-Public Health will still be utilizing the Nightingale Notes for its client clinical, billing, and accounts receivable. All receivables that are Public Health client receivables will be posted twice, once in IFS and then in Nightingale Notes creating a duplication of posting. This duplication is necessary to keep the individual client ledgers up to date in Nightingale Notes.

Finding 2010-003

Other Postemployment Benefits (OPEB)

Criteria: The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which provides the accounting and financial reporting standards for OPEB offered to retirees. GASB Statement 45 was applicable to Cottonwood-Jackson Community Health Services for the year ended December 31, 2009.

Condition: GASB Statement 45 has not yet been implemented by Cottonwood-Jackson Community Health Services as required. The Health Services has not undergone an actuarial study to determine its OPEB liability. The Health Services has not reported its OPEB liability or the change to the net OPEB obligation in the basic financial statements.

Context: The Health Services should have determined its net OPEB liability and annual OPEB cost in accordance with GASB Statement 45.

Effect: A qualified opinion is issued on the basic financial statements of Cottonwood-Jackson Community Health Services.

Cause: The Health Services has determined the cost of hiring an actuary to determine annual costs and liabilities associated with reporting its OPEB liability is not worth the necessary investment to become compliant with GASB 45.

Recommendation: We recommend the Health Services determine the net OPEB liability and annual OPEB cost in accordance with the requirements of GASB Statement 45. This will require the Health Services to contract with an actuarial service to determine this liability.

Client's Response:

Effective January 1, 2014, Cottonwood-Jackson Community Health Services merged with Cottonwood County Family Service Agency and Jackson County Department of Human Services to form Des Moines Valley Health and Human Services. The new agency intends to determine the OPEB liability and annual OPEB cost in accordance with the requirements of GASB Statement No. 45.

ITEM ARISING THIS YEAR

Finding 2013-001

Audit Adjustment

Criteria: 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 of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control 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.

Condition: During our audit, we identified a material adjustment that resulted in significant changes to the Health Services' financial statements, which were reviewed and approved by the appropriate staff and are reflected in the financial statements.

Context: The inability to make all necessary accrual adjustments or to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. Some of the adjustments required additional time by the auditors to determine the correct balances.

Effect: The following audit adjustment was necessary:

- Increased cash and advance from other governments by \$116,716 to reflect an advance received from Jackson County.

Cause: This transaction was not included in the client data provided in order to properly record it in the financial statements.

Recommendation: We recommend that the Health Services review internal controls currently in place, then design and implement procedures to improve internal control over financial reporting to detect misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements. In addition, we recommend the Health Services include a final review process to trace items on the financial statements back to the supporting detail to detect errors, including mapping issues and other necessary adjustments that can be corrected by the Health Services prior to the audit.

Client's Response:

This entry was a one-time event to close out the Cottonwood-Jackson Community Health Services account fund with Jackson County. The Community Health Service's (CHS) Fiscal Officer attempted to secure Jackson County's December 31, 2013 ending balance to balance with the CHS ending balance amount and to transfer that money to Jackson County before the end of 2013. It was January 12, 2014 before the information was secured and the transfer was made.

Effective January 1, 2014, Cottonwood-Jackson Community Health Services merged with Cottonwood County Family Service Agency and Jackson County Department of Human Services to form Des Moines Valley Health and Human Services (DVHHS). With the merger, DVHHS will have reserve amounts that will be enough to cover these instances. Cottonwood-Jackson Community Health Services operated without any reserve dollars and requested their county allocations on an "as needed" basis after the expenditures were made.

II. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 1998-001

Disaster Recovery Plan

Criteria: There should be a detailed disaster recovery plan in place to assist in a timely recovery of data processing in the event of a disaster. Disaster recovery planning involves predetermined methods and procedures to restore and continue operations in the event of a catastrophic emergency in the data processing area. A written plan should cover the loss of any or all programs, data, forms, computer media, operating instructions, details on an alternate site for operations, staffing requirements, and a schedule of priorities.

Condition: Cottonwood-Jackson Community Health Services rents time on Jackson County's IBM iSeries for recording financial transactions, disbursements, and payroll. In the event of a disaster, the Health Services would rely on Jackson County's disaster recovery plan to restore operations; however, Jackson County does not have a formal County Board-approved policy.

Context: The Health Services relies on Jackson County's system for recording a significant amount of data, making guidelines for timely recovery of such important.

Effect: The lack of a formal written disaster recovery plan could adversely affect the Health Services' ability to recover data or continue processing operations after an unexpected interruption.

Cause: Jackson County has not formalized a risk assessment policy relative to information technology and has not developed a detailed plan that will ensure continued operations in the event of a disaster.

Recommendation: We recommend Cottonwood-Jackson Community Health Services work with Jackson County to complete and approve a disaster recovery plan.

Client's Response:

Des Moines Valley Health and Human Services will be contracting their Information Services from Jackson County. Because of this relationship, Des Moines Valley Health and Human Services will work with Jackson County to complete and approve a disaster recovery plan.

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COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND/OR MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS

Members of the Joint Health and Human Services Board
Des Moines Valley Health and Human Services

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the financial statements of Cottonwood-Jackson Community Health Services (Health Services), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Health Services' basic financial statements, and have issued our report thereon dated July 18, 2014. We have issued a qualified opinion on the basic financial statements because Cottonwood-Jackson Community Health Services has not reported other postemployment benefits (OPEB) obligations in the Statement of Net Position and has not reported the net OPEB obligation change in the Statement of Revenues, Expenses, and Changes in Net Position, as required by generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the Health Services' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Services' internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Services' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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, 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. We consider the deficiency listed in the Schedule of Findings and Recommendations as item 2013-001 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in the Health Services' internal control, identified as items 1999-001, 2010-001, 2010-002, and 2010-003 in the Schedule of Findings and Recommendations, to be significant deficiencies.

Other Matters

Also included in the Schedule of Findings and Recommendations is a management practices comment. We believe this recommendation to be of benefit to Cottonwood-Jackson Community Health Services, and it is reported for that purpose.

Cottonwood-Jackson Community Health Services' written responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Health Services' responses and, accordingly, we express no opinion on them.

Purpose of This Report

This communication is intended solely for the information and use of the Board of Health, management, and others within Cottonwood-Jackson Community Health Services, and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 18, 2014



REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Members of the Joint Health and Human Services Board
Des Moines Valley Health and Human Services

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of Cottonwood-Jackson Community Health Services (Health Services) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Health Services' basic financial statements and have issued our report thereon dated July 18, 2014.

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 Cottonwood-Jackson Community Health Services' financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness because Cottonwood-Jackson Community Health Services does not have debt.

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

This report is intended solely for the information and use of the Board of Health, management, and others within Cottonwood-Jackson Community Health Services and the State Auditor and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 18, 2014