

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2014

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 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.

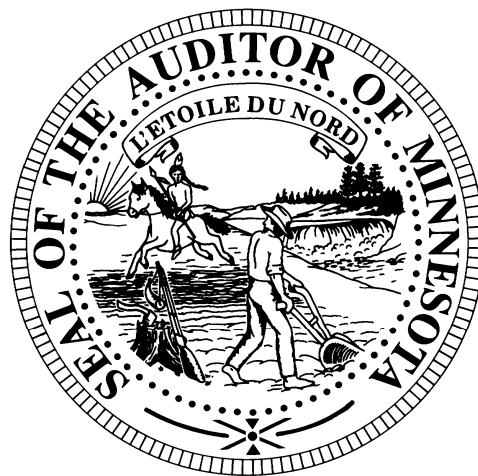
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

For the Year Ended December 31, 2014



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

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**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

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MARSHALL, MINNESOTA**

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**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

**ORGANIZATION
2014**

Health and Human Services Governing Board	County	Appointment Expires
Chair		
Robert Moline	Murray	December 31, 2015
Vice Chair		
Priscilla Klabunde	Redwood	December 31, 2015
Members		
Joan Jagt	Lincoln	December 31, 2015
Curtis Blumeyer	Lincoln	December 31, 2014
Steve Ritter	Lyon	December 31, 2015
Rick Anderson	Lyon	December 31, 2015
Gerald Magnus	Murray	December 31, 2015
Harold Miller	Pipestone	December 31, 2014
Bill Johnson	Pipestone	December 31, 2014
Al Kokesch	Redwood	December 31, 2014
Robert Jarchow	Rock	December 31, 2014
Ronald Boyenga	Rock	December 31, 2015
<hr/>		
Human Services Board		
Chair		
Joan Jagt	Lincoln	December 31, 2015
Vice Chair		
Gerald Magnus	Murray	December 31, 2015
Members		
Pam VanOverbeke	Lincoln	July 5, 2016
Rick Anderson	Lyon	December 31, 2015
Steve Ritter	Lyon	December 31, 2015
Lois Schmidt	Lyon	July 5, 2016
Curtis Blumeyer	Lincoln	December 31, 2014
Robert Moline	Murray	December 31, 2015
Jeane Anderson	Murray	July 6, 2016
Harold Miller	Pipestone	December 31, 2014
Marvin Tinklenberg	Pipestone	December 31, 2015
Al Kokesch	Redwood	December 31, 2014
Priscilla Klabunde	Redwood	December 31, 2015
Carol Flahaven	Redwood	December 31, 2015
Robert Jarchow	Rock	December 31, 2014
Ronald Boyenga	Rock	December 31, 2015
Vacant*	Rock	

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

ORGANIZATION
2014
(Continued)

Community Health Board	County	Appointment Expires
Chair		
Curtis Blumeyer	Lincoln	December 31, 2014
Vice Chair		
Robert Jarchow	Rock	December 31, 2014
Members		
Steve Ritter	Lyon	December 31, 2015
Rick Anderson	Lyon	December 31, 2015
Robert Moline	Murray	December 31, 2015
Bill Johnson	Pipestone	December 31, 2014
Al Kokesch	Redwood	December 31, 2014
Priscilla Klabunde	Redwood	December 31, 2015
Director		
Christopher Sorensen		Indefinite
Deputy Director		
Nancy Walker		Indefinite
Fiscal Supervisor II		
Karla Drown		Indefinite
Attorney		
William J. Toulouse		Indefinite

*Richard Bakken resigned as of May 1, 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
Southwest Health and Human Services
Marshall, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Health and Human Services as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Health and Human Services' basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the Health and Human 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 and Human Services' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Health and Human Services as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof 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 and Required Supplementary Information as listed in the table of contents 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Southwest Health and Human Services' basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to

the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2015, on our consideration of Southwest Health and Human Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southwest Health and Human Services' internal control over financial reporting and compliance.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

August 13, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014
(Unaudited)**

Southwest Health and Human Services' Management's Discussion and Analysis (MD&A) provides an overview of the Health and Human Services' financial activities for the fiscal year ended December 31, 2014. 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 and Human Services' financial statements (beginning with Exhibit 1).

FINANCIAL REPORTING ENTITY

Southwest Health and Human Services (SWHHS) was formed under the authority of Minn. Stat. ch. 145A and Minn. Stat. § 471.59 by terminating the joint powers agreements for Lincoln, Lyon, & Murray Human Services (LLMHS) and Lincoln, Lyon, Murray, and Pipestone Public Health Services (LLMPPHS). Dissolution of LLMHS and LLMPPHS was effective December 31, 2010, although the agreement stated that both LLMHS and LLMPPHS continued to exist after dissolution as long as necessary to conclude the affairs of the agencies.

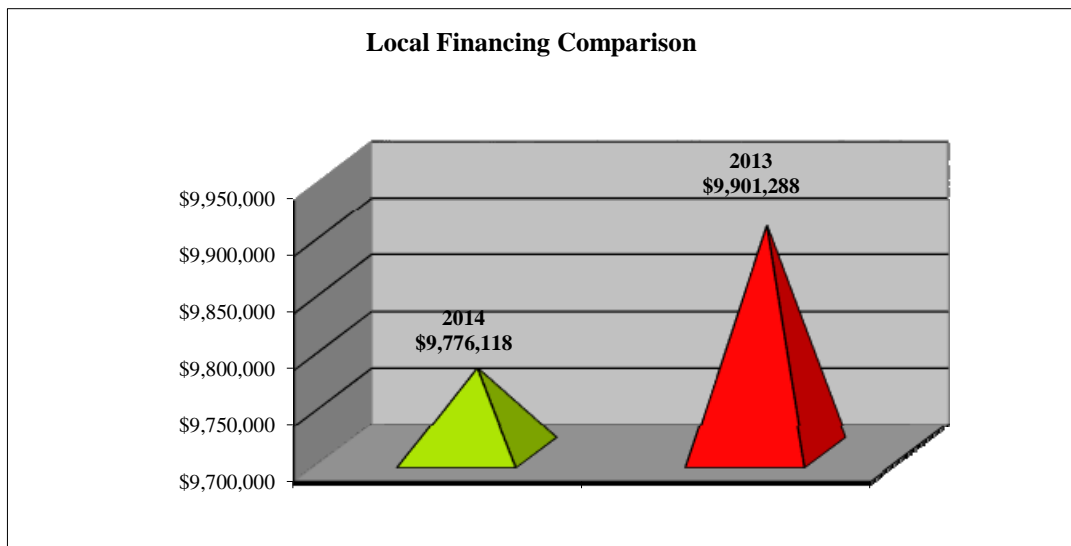
SWHHS began official operations on January 1, 2011, and performs health and human services functions formerly performed by the two previous joint ventures. SWHHS is governed by a Joint Health and Human Services Board, made up of one Commissioner (or alternate) from each county serving on the Community Health Board and one Commissioner (or alternate) from each county serving on the Human Services Board. The Human Services Board is made up of two County Commissioners from each of the participating counties, who are chosen by their respective County Boards, and one lay person from each participating county. The Community Health Board is made up of one County Commissioner and one alternate from each member county, unless such county shall have a population in excess of twice that of any other member county, in which case it shall have two Commissioners and two alternates. Local financing for the first year of operations was based on the 2010 contribution amounts of LLMHS and LLMPPHS. In 2014, the local financing for human services was based on consideration of: (1) population based on the most recent national census, (2) tax capacity, and (3) the most recent three-year average Social Service Expenditure and Grant Reconciliation Report (SEAGR), each factor to be weighted equally. Public health financing for 2014 was based on \$6.00 per capita, with the exception of Redwood County, which was based on \$20.00 per capita.

FINANCIAL HIGHLIGHTS

Governmental activities' total net position is \$6,157,567, of which \$498,347 represents the net investment in capital assets (Exhibit 1). In 2014, governmental activities' total net position decreased by \$143,573. Local financing for the Health and Human Services in 2014 was \$9,776,118, which comprised 41.5 percent of the total intergovernmental revenue. Total federal and state grants comprised 48.9 percent of the total intergovernmental revenue. Compensated absences totaled \$891,314, and the other postemployment benefits (OPEB) obligation totaled \$1,096,944. Comparing 2014 with 2013, the following table shows local financing costs decreased from 2013 to 2014. This is in relation to the fact that Southwest Health and Human Services did not have any entities joining in 2014. In prior years, "buy-in" funds of new members increased the amounts received from participating counties to the joint powers organization (JPO).

Local Financing Revenue

	2014	2013
Payments from participating counties	\$ 9,776,118	\$ 9,901,288



OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Southwest Health and Human Services' basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and other information are required to accompany the basic financial statements and, therefore, are included as required supplementary information. Other information is provided as supplementary information regarding Southwest Health and Human Services' intergovernmental revenue and federal award programs.

Government-wide financial statements

There are two government-wide financial statements. The statement of net position and the statement of activities provide information about the activities of the Health and Human Services as a whole and present a longer-term view of the Health and Human Services' finances. The statement of net position includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid. Over time, increases or decreases in the Health and Human Services' net position are one indicator of whether its financial health is improving or deteriorating.

The government-wide financial statements are Exhibits 1 and 2 of this report.

Governmental fund financial statements

The governmental fund financial statements focus on how money flows in and out and the balances left at year-end available for spending. These statements provide a detailed short-term view of the Health and Human Services' general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Health and Human Services' programs. We reconcile the relationship (or differences) between governmental funds and governmental activities.

The basic governmental fund financial statements are Exhibits 3 through 6 of this report.

Proprietary fund financial statements

Internal service funds are an accounting device used to accumulate and allocate costs internally among Southwest Health and Human Services' various functions. Southwest Health and Human Services uses the Internal Service Fund to account for its self-insurance. The service benefits the governmental functions and has been allocated to the governmental activities in the government-wide financial statements.

The basic proprietary fund financial statements are Exhibits 7 through 9 of this report.

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 24 through 54 of this report.

Other information

Other information is provided as supplementary information regarding Southwest Health and Human Services' intergovernmental revenue and federal awards programs.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the Health and Human Services' financial position. The Health and Human Services' assets exceeded liabilities by \$6,157,567. Eight percent of the Health and Human Services' net position reflects its net investment in capital assets. It should be noted that these assets are not available for future spending.

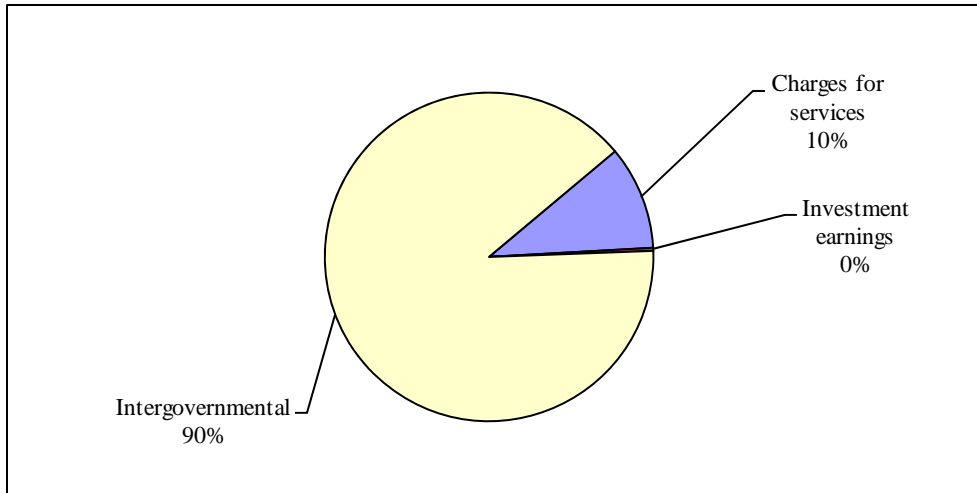
Governmental Activities

Comparative condensed statements of net position and activities illustrate the changes from 2013 to 2014:

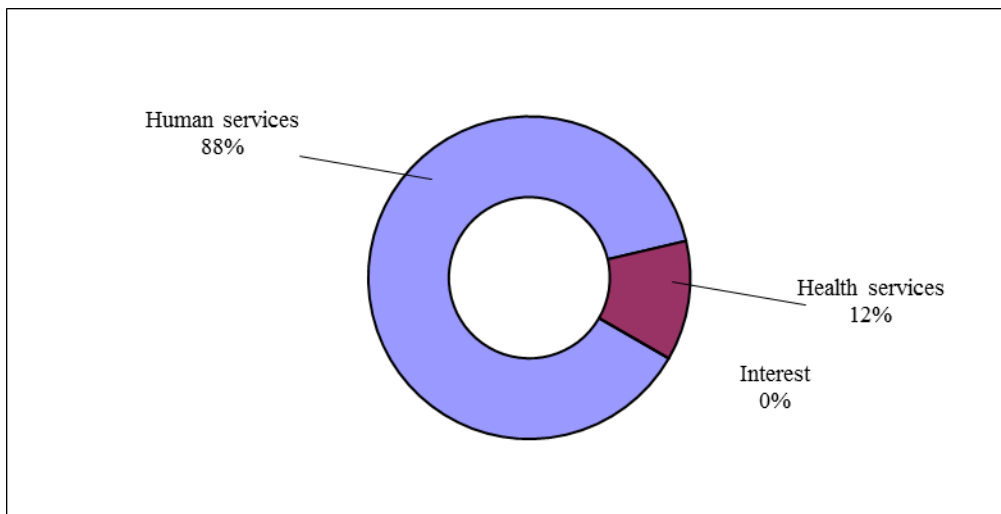
	Net Position		Percent (%) Change
	2013	2014	
Assets			
Current assets	\$ 8,613,820	\$ 9,777,137	13.5
Capital assets, net of depreciation	575,421	569,345	(1.1)
Total Assets	\$ 9,189,241	\$ 10,346,482	12.6
Liabilities			
Current liabilities	\$ 1,318,965	\$ 2,123,512	61.0
Long-term liabilities	1,569,136	2,065,403	31.6
Total Liabilities	\$ 2,888,101	\$ 4,188,915	45.0
Net Position			
Net investment in capital assets	\$ 575,421	\$ 498,347	(13.4)
Restricted for health	73,237	-	(100.0)
Restricted for human services	21,036	-	(100.0)
Unrestricted	5,631,446	5,659,220	0.5
Total Net Position	\$ 6,301,140	\$ 6,157,567	(2.3)
	Activities		Percent (%) Change
	2013	2014	
Revenues			
Intergovernmental	\$ 21,634,961	\$ 23,839,671	10.2
Charges for services	2,568,056	2,733,069	6.4
Investment earnings	(51,781)	83,532	261.3
Total Revenues	\$ 24,151,236	\$ 26,656,272	10.4
Expenses			
Human services	\$ 22,365,046	\$ 23,715,630	6.0
Health services	3,297,152	3,380,034	2.5
Interest	-	4,181	100.0
Total Expenses	\$ 25,662,198	\$ 27,099,845	5.6

	Activities		Percent (%) Change
	2013	2014	
Change in Net Position Before Special Items	\$ (1,510,962)	\$ (443,573)	
Special items - County contribution	2,534,719	300,000	
Change in Net Position	\$ 1,023,757	\$ (143,573)	
Net Position - Beginning	5,277,383	6,301,140	
Net Position - Ending	\$ 6,301,140	\$ 6,157,567	(2.3)

Revenue - 2014
\$26,656,272



Expenses - 2014
\$27,099,845



(Unaudited)

As shown in the statement of activities on Exhibit 2, the amount that was received through intergovernmental revenue was 90 percent of the total revenue received.

FINANCIAL STATEMENT ANALYSIS OF THE GOVERNMENTAL FUNDS

Governmental Funds

The focus of the Health and Human Services' governmental funds is to provide information on short-term inflows, outflows, and the balances left at year-end that are available for spending. Such information is useful in assessing the Health and Human Services' financing requirements.

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$7,712,651, an increase of \$627,565 in comparison with the prior year. Of the combined ending fund balances, \$7,712,651 represents assigned and unassigned fund balance which is available for spending at the agency's discretion.

The General Fund is the operating fund for the human services portion of the agency. At the end of the current fiscal year, it had an unassigned fund balance of \$5,560,623. The General Fund's unassigned fund balance represents 24.2 percent of total General Fund expenditures. During 2014, the ending fund balance increased by \$641,545, primarily due to the additional revenues collected through intergovernmental sources, charges for services, and an increase in investment earnings above what was budgeted.

The Health Services Special Revenue Fund had an assigned fund balance of \$1,972,203. The ending balance decreased by \$13,980 during 2014, primarily due to the additional costs of imaging, which is moving the agency toward going paperless. These costs were more than was expected.

General Fund

<u>Revenues</u>	<u>Budgeted Amount</u>	<u>Actual Amount</u>
Intergovernmental	\$ 19,535,539	\$ 20,945,858
Charges for services	1,314,500	1,750,717
Investment earnings	8,500	67,983
Miscellaneous	<u>864,600</u>	<u>412,206</u>
Total Revenues	<u>\$ 21,723,139</u>	<u>\$ 23,176,764</u>

Health Services Special Revenue Fund

<u>Revenues</u>	<u>Budgeted Amount</u>	<u>Actual Amount</u>
Intergovernmental	\$ 2,616,604	\$ 2,629,761
Charges for services	517,660	496,482
Investment earnings	-	15,549
Miscellaneous	13,550	98,486
	<hr/>	<hr/>
Total Revenues	<u>\$ 3,147,814</u>	<u>\$ 3,240,278</u>

General Fund Budgetary Highlights

Over the course of the year, the original to final budget totals stayed the same. Actual revenue exceeded budgeted revenue by \$1,453,625. The area that contributed to the increase in revenue was intergovernmental. Actual expenditures exceeded budgeted expenditures by \$885,575. Overall, the net change in fund balance was \$641,545. The primary cause of this change was the Redwood County contribution to join Southwest Health and Human Services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Health and Human Services' investment in capital assets for its governmental activities for the year ended December 31, 2014, is \$569,345 (net of accumulated depreciation). This investment in capital assets includes office furniture and equipment and automotive equipment. In 2014, the Health and Human Services purchased three automobiles and a new security system for the Redwood Falls office. Also in 2014, the entity changed the capital asset threshold from \$1,500 to \$5,000. Overall, the Health and Human Services has been holding on to capital assets longer and replacing at a slower rate due to decreased funding and revenues.

The following table shows capital assets, net of depreciation, at December 31, 2014.

Construction in progress	\$ 7,750
Office furniture and equipment	367,628
Automotive equipment	<hr/> 193,967
Total Capital Assets Depreciated, Net	<u>\$ 569,345</u>

Long-Term Debt

The Health and Human Services has outstanding long-term liabilities at December 31, 2014, of \$2,065,403. The outstanding long-term liabilities are related to compensated absences, other postemployment benefits, and capital leases.

Governmental Activities Long-Term Liabilities

Capital leases payable	\$ 77,145
Compensated absences	891,314
Other postemployment benefits	<u>1,096,944</u>
Total	<u>\$ 2,065,403</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Southwest Health and Human Services planned a balanced budget for 2014. The levy for Health and Human Services was approved at a one percent increase for the General Fund. A change in the per capita levy for the Health Services Special Revenue Fund was also approved by the Governing Board of Commissioners. This change will equalize the per capita funding for all of the six Southwest Health and Human Services counties over a three-year time frame.

In 2015, Southwest Health and Human Services continues investing in operational readiness by expanding the agency-wide imaging technology and hiring several new employees to meet the health and safety needs of our population.

Also in 2015, Southwest Health and Human Services will provide increasingly complicated and costly services for our communities that are integral to the safety and well-being of our population.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Southwest Health and Human Services' financial statements. Additional questions or further explanation of this report can be obtained by writing to Christopher J. Sorensen, Director of Southwest Health and Human Services, 607 West Main Street, Suite 100, Marshall, Minnesota 56258, or by calling 507-532-1248.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT 1

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

Assets

Cash and pooled investments	\$ 7,755,756
Receivables	2,021,381
Capital assets	
Non-depreciable	7,750
Depreciable - net of accumulated depreciation	<u>561,595</u>
Total Assets	<u>\$ 10,346,482</u>

Liabilities

Accounts payable and other current liabilities	\$ 2,037,552
Unearned revenue	85,960
Long-term liabilities	
Due within one year	86,238
Due in more than one year	882,221
Other postemployment benefits obligation	<u>1,096,944</u>
Total Liabilities	<u>\$ 4,188,915</u>

Net Position

Net investment in capital assets	\$ 498,347
Unrestricted	<u>5,659,220</u>
Total Net Position	<u>\$ 6,157,567</u>

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT 2

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

	Program Revenues				Net (Expense) Revenue and Changes in Net Position
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions		
<u>Functions/Programs</u>					
Governmental activities					
Human services	\$ 23,715,630	\$ 2,144,773	\$ 12,172,232	\$ -	\$ (9,398,625)
Health services	3,380,034	588,296	1,891,321	-	(900,417)
Interest	4,181	-	-	-	(4,181)
Total Governmental Activities	\$ 27,099,845	\$ 2,733,069	\$ 14,063,553	\$ -	\$ (10,303,223)
General Revenues					
				\$ 9,776,118	
				83,532	
Special Item					
				300,000	
				\$ 10,159,650	
					\$ (143,573)
					6,301,140
					\$ 6,157,567

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT 3

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

	General	Health Services	Total
<u>Assets</u>			
Cash and pooled investments	\$ 5,754,248	\$ 1,948,786	\$ 7,703,034
Accounts receivable	320,763	27,427	348,190
Advance to other governments	80,749	-	80,749
Due from other governments	1,366,497	225,945	1,592,442
Total Assets	\$ 7,522,257	\$ 2,202,158	\$ 9,724,415
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 701,792	\$ 43,145	\$ 744,937
Salaries payable	564,084	120,039	684,123
Due to internal service fund	40,942	-	40,942
Due to other governments	453,955	1,847	455,802
Unearned revenue	21,036	64,924	85,960
Total Liabilities	\$ 1,781,809	\$ 229,955	\$ 2,011,764
 Fund Balances			
Assigned to			
Health services	\$ -	\$ 1,972,203	\$ 1,972,203
Software purchases	179,825	-	179,825
Unassigned	5,560,623	-	5,560,623
Total Fund Balances	\$ 5,740,448	\$ 1,972,203	\$ 7,712,651
Total Liabilities and Fund Balances	\$ 7,522,257	\$ 2,202,158	\$ 9,724,415

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT 4

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

Fund balance - total governmental funds (Exhibit 3)	\$	7,712,651
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		569,345
An internal service fund is used by the Health and Human Services to charge the cost of the self-funded insurance programs to functions. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.		(59,026)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Leases payable	\$ (77,145)	
Compensated absences	(891,314)	
Net OPEB obligation	(1,096,944)	(2,065,403)
Net Position of Governmental Activities (Exhibit 1)		<u><u>\$ 6,157,567</u></u>

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Health Services	Total
Revenues			
Intergovernmental	\$ 20,945,858	\$ 2,629,761	\$ 23,575,619
Charges for services	1,750,717	496,482	2,247,199
Investment earnings	67,983	15,549	83,532
Miscellaneous	412,206	98,486	510,692
	\$ 23,176,764	\$ 3,240,278	\$ 26,417,042
Expenditures			
Current			
Human services	\$ 22,897,238	\$ -	\$ 22,897,238
Health	-	3,265,203	3,265,203
Debt Service			
Principal	7,922	1,398	9,320
Interest	3,554	627	4,181
	\$ 22,908,714	\$ 3,267,228	\$ 26,175,942
Excess of Revenues Over (Under) Expenditures	\$ 268,050	\$ (26,950)	\$ 241,100
Other Financing Sources (Uses)			
Capital lease purchase	73,495	12,970	86,465
Special Item			
Redwood County contribution to Southwest Health and Human Services	300,000	-	300,000
	\$ 641,545	\$ (13,980)	\$ 627,565
Fund Balance - January 1	5,098,903	1,986,183	7,085,086
Fund Balance - December 31	\$ 5,740,448	\$ 1,972,203	\$ 7,712,651

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 627,565

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. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. The difference is the net book value of the assets disposed of.

Expenditures for general capital assets	\$ 229,731	
Net book value of assets disposed of (see Note 1.D.4. for more information)	(71,816)	
Current year depreciation	<u>(163,991)</u>	(6,076)

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction has any effect on net position.

Principal payments on capital leases		9,320
Capital leases (see Note 2.C.3. for more information)		(86,465)

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 governmental funds.

Change in compensated absences	\$ (53,542)	
Change in net OPEB liability	<u>(365,580)</u>	(419,122)

An internal service fund is used by the Health and Human Services to charge the cost of the self-funded insurance programs to functions. The increase or decrease in net position of the internal service fund is reported in the government-wide statement of activities.

		<u>(268,795)</u>
Change in Net Position of Governmental Activities (Exhibit 2)		<u><u>\$ (143,573)</u></u>

PROPRIETARY FUND

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**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT 7

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

	Governmental Activities Internal Service Fund
<u>Assets</u>	
Current assets	
Cash and pooled investments	\$ 52,722
Due from governmental funds	<u>40,942</u>
Total Assets	\$ 93,664
<u>Liabilities</u>	
Current liabilities	
Accounts payable	<u>152,690</u>
<u>Net Position</u>	
Unrestricted	<u><u>\$ (59,026)</u></u>

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Governmental Activities Internal Service Fund</u>
Operating Revenues	
Charges for services	\$ 1,952,488
Operating Expenses	
Cost of service	<u>2,221,283</u>
Operating Income (Loss)	\$ (268,795)
Net Position - January 1	<u>209,769</u>
Net Position - December 31	<u><u>\$ (59,026)</u></u>

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2014
Increase (Decrease) in Cash and Cash Equivalents**

	<u>Governmental Activities Internal Service Fund</u>
Cash Flows from Operating Activities	
Receipts from internal services provided	\$ 1,952,494
Payments to suppliers	<u>(2,023,593)</u>
Net cash provided by (used in) operating activities	\$ (71,099)
Cash and Cash Equivalents at January 1	<u>123,821</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 52,722</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	<u>\$ (268,795)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
(Increase) decrease in accounts receivable	\$ 6
(Increase) decrease in prepaid items	45,000
Increase (decrease) in accounts payable	<u>152,690</u>
Total adjustments	<u>\$ 197,696</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (71,099)</u></u>

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FIDUCIARY FUNDS

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**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2014**

Assets

Cash and pooled investments	<u>\$ 294,532</u>
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Liabilities

Due to other governments	<u>\$ 294,532</u>
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**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

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

1. Summary of Significant Accounting Policies

Southwest Health and Human Services' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2014. 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 Southwest Health and Human Services are discussed below.

A. Financial Reporting Entity

Southwest Health and Human Services was formed pursuant to Minn. Stat. § 471.59, by Lincoln, Lyon, Murray, and Pipestone Counties. Political subdivisions are required by Minn. Stat. ch. 145A to undertake the responsibilities of the Minnesota Public Health Act. Minn. Stat. ch. 393 and other applicable state statutes and rules require counties, through the creation of a local social services agency, to undertake responsibilities related to the provision of health and human services. Southwest Health and Human Services began official operations on January 1, 2011, and performs health and human services in the counties that are signatories to the joint powers agreement (JPA). In 2012 and after, local financing will be provided based on consideration of: (1) population based on the most recent national census, (2) tax capacity, and (3) the most recent three-year average Social Service Expenditure and Grant Reconciliation Report (SEAGR), each factor to be weighted equally. As of January 1, 2012, Rock County Human Services and Rock County Public Health joined the JPA of Southwest Health and Human Services. As of January 1, 2013, Pipestone County Family Services, Redwood County Human Services, and Redwood County Public Health joined the JPA of Southwest Health and Human Services.

Southwest Health and Human Services is governed by a Joint Health and Human Services Board, made up of one Commissioner (or alternate) from each county serving on the Community Health Board and one Commissioner (or alternate) from each county serving on the Human Services Board. The Human Services Board is made up of two County Commissioners from each of the participating counties, who are chosen by their respective County Boards, and one lay person from each participating county.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

The Community Health Board is made up of one County Commissioner and one alternate from each member county, unless such county shall have a population in excess of twice that of any other member county, in which case, it shall have two Commissioners and two alternates.

Southwest Health and Human Services is an independent joint venture and is not included in any of the member counties' reporting entities.

Joint Ventures

Southwest Health and Human Services participates in joint ventures described in Note 5.B. The Health and Human Services also participates in jointly-governed organizations described in Note 5.C.

B. Basic Financial Information

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about Southwest Health and Human Services. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by intergovernmental revenue, are reported separately.

In the government-wide statement of net position, the governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Health and Human Services' net position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The Health and Human Services first utilizes restricted resources to finance qualifying activities.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, 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 the Health and Human Services' governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the Health and Human Services' funds, including its fiduciary funds. Separate statements for each fund category--governmental, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements are on major individual governmental funds, with each displayed as separate columns in the fund financial statements. The Health and Human Services reports all of its governmental funds as major funds.

The Health and Human Services reports the following major governmental funds:

- The General Fund is the Health and Human Services' primary operating fund. It accounts for all financial resources of the Health and Human Services, except those accounted for in another fund. Southwest Health and Human Services has chosen to use the General Fund to account for human service programs and information technology. Financing comes primarily from contributions of participating counties and intergovernmental revenue provided by the state and federal governments.
- The Health Services Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as committed contributions from participating counties for community health programs.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the Health and Human Services reports the following fund types:

- The Internal Service Fund accounts for health insurance premiums and payments.
- The Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the Health and Human Services holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund 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.

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. Southwest Health and Human Services considers all revenues as available if collected within 60 days after the end of the current period. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. Charges for services and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general 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 are reported as other financing sources.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

1. Deposits and Investments

Under the direction of the Investment Committee and the Board, the cash balances of substantially all funds are pooled and invested by the Lyon County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2014, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2014 were \$85,533.

Southwest Health and Human Services has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in Southwest Health and Human Services' investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

Cash and cash equivalents are identified only for the purpose of the statement of cash flows for the proprietary fund. Pooled investments, which have the characteristics of demand deposits, are considered to be cash and cash equivalents on the statement of cash flows.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Receivables

The financial statements for Southwest Health and Human Services contain no allowance for uncollectible accounts. Uncollectible amounts due for receivables are recognized as bad debts at the time information becomes available that indicates the uncollectibility of the particular receivable. These amounts are not considered to be material in relation to the financial position or operations of the funds.

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

Advances between funds, as reported in the fund financial statements, are offset by nonspendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital Assets

On December 18, 2013, the Southwest Health and Human Services Board approved an updated capital assets policy resulting in the Health and Human Services’ capital asset capitalization threshold increasing to \$5,000 as of January 1, 2014. Details on this change in accounting principle are included in Note 2.A.3.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets (Continued)

Capital assets, which include office furniture, equipment, and automotive equipment, are reported by the Health and Human Services in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two 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.

Office furniture and equipment and automotive equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Office furniture and equipment	3 to 10
Automotive equipment	3 to 10

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. A 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. Compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of an amount based on a trend analysis of current usage of vacation and vested sick leave. The noncurrent portion consists of the remaining amount of vacation and total vested sick leave.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. The fund financial statements report only liabilities expected to be financed with available, spendable financial resources. Acquisitions under capital leases are reported as an other financing source at the present value of the future minimum lease payments as of the inception date.

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the Health and Human Services has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Currently, the Health and Human Services has no items that qualify for reporting in this category.

8. Unearned/Unavailable Revenue

Governmental fund and government-wide financial statements report unearned revenue in connection with resources received, but not yet earned. Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Classification of Net Position

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

- Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments or 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 net investment in capital assets.

10. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which Southwest Health and Human Services is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

- Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.
- Restricted - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Classification of Fund Balances (Continued)

- Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.
- Assigned - amounts the Health and Human Services intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or an individual who has been delegated that authority by Board resolution.
- Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

Southwest Health and Human Services applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

11. Minimum Fund Balance

Southwest Health and Human Services adopted a minimum fund balance policy for its General Fund to maintain a minimum unassigned fund balance equal to 35 to 50 percent of the General Fund's operating expenditures. At December 31, 2014, unrestricted fund balance in the General Fund was not above the minimum fund balance levels.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. 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 certain 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.

13. Special Item

Redwood County approved a resolution seeking to join Southwest Health and Human Services for both human services and community health functions, commencing January 1, 2013. In the approved resolution, Redwood County agreed to contribute \$934,642 to the human services function and \$373,856 to the community health function in 2013. In addition, Redwood County agreed to contribute an additional \$300,000 to the human services function of the Health and Human Services in 2014.

E. Future Change in Accounting Standards

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

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of the Health and Human Services' total cash and investments to the basic financial statements follows:

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 7,755,756
Statement of fiduciary net position	
Cash and pooled investments	<u>294,532</u>
 Total Cash and Investments	 <u>\$ 8,050,288</u>

a. Deposits

Southwest Health and Human 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. Southwest Health and Human 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.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Health and Human Services' deposits may not be returned to it. The Health and Human Services has adopted a policy for custodial credit risk of obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2014, Southwest Health and Human Services' deposits were not exposed to custodial credit risk.

b. Investments

Southwest Health and Human 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;

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries rated in the highest quality category by two nationally recognized rating agencies and maturing in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. Southwest Health and Human Services minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the Health and Human Services' policy to invest only in securities that meet the ratings requirements set by state statute.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The Health and Human Services has adopted a policy for custodial credit risk that permits brokers to hold investments only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage are available. As of December 31, 2014, Southwest Health and Human Services' investments were not exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the Health and Human Services' investment in a single issuer. It is Southwest Health and Human Services' policy to diversify the investment portfolio so that the impact of potential losses from one type of security will be minimized.

At December 31, 2014, Southwest Health and Human Services had the following deposits and investments.

Investment - Issuer	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal Home Loan Bank	AA+	S&P		12/30/2019	\$ 510,000
Federal Home Loan Bank	AA+	S&P		04/18/2023	500,000
Total Federal Home Loan Bank			>5%		\$ 1,010,000

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment - Issuer	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Negotiable certificates of deposit					
Sallie Mae Bk	N/R	N/A		08/27/2019	\$ 200,000
American Exp Bk	N/R	N/A		08/28/2019	200,000
American Exp Cent Bk	N/R	N/A		12/04/2019	245,000
Webster Five Cents	N/R	N/A		12/17/2019	244,750
Total negotiable certificates of deposit			>5%		\$ 889,750
Total investments					\$ 1,899,750
Checking					5,900,727
Savings					249,811
Total Cash and Investments					\$ 8,050,288

N/A - Not Applicable

N/R - Not Rated

<5% - Concentration is less than 5% of investments

>5% - Concentration is more than 5% of investments

2. Receivables

Receivables as of December 31, 2014, for the Health and Human Services' governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Accounts receivable	\$ 348,190	\$ -
Advance to other governments	80,749	-
Due from other governments	1,592,442	-
Total Governmental Activities	\$ 2,021,381	\$ -

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

The Southwest Health and Human Services Board changed the capitalization threshold for reporting purposes from \$1,500 to \$5,000 as of January 1, 2014. As a result, total capital assets were decreased by \$229,455, and accumulated depreciation was decreased by \$168,960.

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Construction in progress	\$ 79,276	\$ 7,750	\$ 79,276	\$ 7,750
Capital assets depreciated				
Office furniture and equipment	\$ 707,499	\$ 249,343	\$ 237,152	\$ 719,690
Automotive equipment	488,148	51,914	48,769	491,293
Total capital assets depreciated	<u>\$ 1,195,647</u>	<u>\$ 301,257</u>	<u>\$ 285,921</u>	<u>\$ 1,210,983</u>
Less: accumulated depreciation for				
Office furniture and equipment	\$ 409,839	\$ 118,882	\$ 176,659	\$ 352,062
Automotive equipment	289,663	45,109	37,446	297,326
Total accumulated depreciation	<u>\$ 699,502</u>	<u>\$ 163,991</u>	<u>\$ 214,105</u>	<u>\$ 649,388</u>
Total capital assets depreciated, net	<u>\$ 496,145</u>	<u>\$ 137,266</u>	<u>\$ 71,816</u>	<u>\$ 561,595</u>
Governmental Activities Capital Assets, Net	<u>\$ 575,421</u>	<u>\$ 145,016</u>	<u>\$ 151,092</u>	<u>\$ 569,345</u>

Construction in progress consists of the amount completed on a new imaging system.

Depreciation expense was charged to functions/programs of the Health and Human Services as follows:

Governmental Activities	
Human services	\$ 142,150
Health services	<u>21,841</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 163,991</u>

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2014, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
Internal Service Fund	General Fund	\$ 40,942

The outstanding balances between funds result from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made. All balances are expected to be liquidated in the subsequent year.

C. Liabilities

1. Payables

Payables at December 31, 2014, were as follows:

Accounts payable	\$ 897,627
Salaries payable	684,123
Due to other governments	455,802
Total Payables	\$ 2,037,552

2. Unearned Revenues

Unearned revenues consist of state grant revenues received but not yet earned. Unearned revenues at December 31, 2014, are summarized below by fund:

	Grants
Major governmental funds	
General	\$ 21,036
Health Services	64,924
Total	\$ 85,960

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Capital Leases

The Health and Human Services has entered into lease agreements as a lessee for financing copier leases and a postage machine. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

Capital leases consist of the following at December 31, 2014:

Lease	Final Maturity	Installments	Payment Amount	Original Issue Amount	Outstanding Balance December 31, 2014
Copier located in Rock County	2019	Monthly	\$ 624	\$ 30,000	\$ 25,722
Copier located in Murray County	2019	Monthly	196	9,200	8,285
Copiers located in Redwood County	2019	Monthly	552	26,400	23,741
Copier located in Lyon County	2019	Monthly	302	13,900	13,250
Postage machine located in Redwood County	2019	Monthly	140	6,965	6,147
Total Capital Leases					<u>\$ 77,145</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2014, were as follows:

Year Ending December 31	Governmental Activities
2015	\$ 21,765
2016	21,764
2017	21,765
2018	21,764
2019	8,263
Total minimum lease payments	\$ 95,321
Less: amount representing interest	<u>(18,176)</u>
Present Value of Minimum Lease Payments	<u>\$ 77,145</u>

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 837,772	\$ 961,882	\$ 908,340	\$ 891,314	\$ 71,394
Other postemployment benefits (See Note 3.B.)	731,364	422,384	56,804	1,096,944	-
Capital leases	-	86,465	9,320	77,145	14,844
Total	<u>\$ 1,569,136</u>	<u>\$ 1,470,731</u>	<u>\$ 974,464</u>	<u>\$ 2,065,403</u>	<u>\$ 86,238</u>

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after five years of credited service.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit 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.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit 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. The Health and Human Services makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014.

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

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

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

<u>2014</u>	<u>2013</u>	<u>2012</u>
\$ 697,723	\$ 659,757	\$ 419,939

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

B. Other Postemployment Benefits (OPEB)

Plan Description

Southwest Health and Human Services provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical insurance benefits. Southwest Health and Human Services provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

B. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

The contribution requirements of the plan members and Southwest Health and Human Services are established and may be amended by the Joint Board of Southwest Health and Human Services. The contribution amount is not to exceed 100 percent of the single cafeteria amount paid by Southwest Health and Human Services on behalf of current employees.

The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as the Health and Human Services' employees. This results in the retirees receiving an implicit rate subsidy. As of January 1, 2014, there were approximately four retirees receiving health benefits from the Health and Human Services' health care plan. The implicit rate subsidy amount was determined by an actuary study to be \$44,606 for 2014.

Annual OPEB Cost and Net OPEB Obligation

Southwest Health and Human Services' annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of Southwest Health and Human Services' annual OPEB cost for the year, the amount actually contributed to the plan, and changes in Southwest Health and Human Services' net OPEB obligation to the plan.

ARC	\$ 308,263
Interest on net OPEB obligation	34,394
Adjustment to ARC	<u>(48,760)</u>
Annual OPEB cost (expense)	\$ 293,897
Contributions made during the year	<u>(56,804)</u>

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

B. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

Increase in net OPEB obligation	\$ 237,093
Net OPEB Obligation - Beginning of Year	731,364
Adjustment to Beginning of Year Net OPEB Obligation**	128,487
 Net OPEB Obligation - End of Year	 \$ 1,096,944

**Adjustment to beginning balance from actuarial valuation dated January 1, 2014. Since the last actuarial valuation as of January 1, 2011, employees from Rock, Redwood, and Pipestone Counties were added to Southwest Health and Human Services.

Southwest Health and Human Services' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2012, 2013, and 2014, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2012	\$ 200,432	\$ 77,478	38.7%	\$ 722,882
December 31, 2013	237,130	228,648	96.4	731,364
December 31, 2014	293,897	56,804	19.3	1,096,944

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the Health and Human Services had no assets to fund the plan. The actuarial accrued liability for benefits was \$2,596,584, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,596,584. The covered payroll (annual payroll of active employees covered by the plan) was \$9,508,973, and the ratio of the UAAL to the covered payroll was 27.3 percent.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

B. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0 percent investment rate of return (net of investment expenses).

The annual health care cost trend is 7.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 10 years. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2014, was 23 years.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

4. Risk Management

Southwest Health and Human Services is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; or natural disasters for which the Health and Human Services carries commercial insurance. To manage these risks, the Health and Human Services has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). Southwest Health and Human Services is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For group employee health benefits, Southwest Health and Human Services has entered into a joint powers agreement - the Southwest/West Central Service Cooperative. Through December 31, 2013, the Health and Human Services participated in the Cooperative. For all other risk, Southwest Health and Human Services carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for 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 \$480,000 per claim in 2014 and \$490,000 in 2015. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Health and Human Services in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the Health and Human 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 Southwest Health and Human Services in a method and amount to be determined by MCIT.

On October 15, 2013, Southwest Health and Human Services entered into a joint powers agreement with four local counties to self-insure health insurance as of January 1, 2014, in effect, leaving the Southwest/West Central Service Cooperative. Premiums will be withheld from employees and transferred into the internal service fund. Claims will be managed and paid by a third party, and the Health and Human Services will be billed weekly, in aggregate, for claims incurred.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

4. Risk Management (Continued)

The Health and Human Services established a limited risk management program for health coverage in 2014. Premiums are paid into the Self-Insurance Internal Service Fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. The Health and Human Services has retained risk up to a \$50,000 stop-loss per person insured (employee and eligible dependent) per year (\$1,000,000 aggregate) for the health plan. Liabilities of the Self-Insurance Internal Service Fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Liabilities generally include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay outs), and other economic and social factors. The December 31, 2014, liability does not include IBNRs, as sufficient claims history was not available. The INBR is expected to be included in future years as claims history becomes available. Changes in the balances of claims liabilities during the year are as follows:

Unpaid claims, January 1	\$ -
Incurred claims	2,176,283
Claims payments	<u>(2,023,593)</u>
Unpaid Claims, December 31, 2014	<u>\$ 152,690</u>

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although Southwest Health and Human Services expects such amounts, if any, to be immaterial.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

The Health and Human Services is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Health and Human Services Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the Health and Human Services.

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the Southwestern Minnesota Adult Mental Health Consortium Board was created under the authority of Minn. Stat. § 471.59. Presently, its members include Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Renville, Swift, and Yellow Medicine Counties; and Southwest Health and Human Services, representing Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock Counties. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host.

The Board takes actions and enters into such agreements as necessary to plan and develop within the Southwestern Minnesota Adult Mental Health Consortium Board's geographic jurisdiction, a system of care that serves the needs of adults with serious and persistent mental illness. The governing board is composed of one Board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained at the Cottonwood County Family Services Agency, Windom, Minnesota 56101.

PrimeWest Health System

The PrimeWest Central County-Based Purchasing Initiative (since renamed PrimeWest Health System) was established in December 1998 by a joint powers agreement with Big Stone, Douglas, Grant, McLeod, Meeker, Pipestone, Pope, Renville, Stevens, and Traverse Counties under the authority of Minn. Stat. § 471.59. Beltrami, Clearwater, and Hubbard Counties were later added to the PrimeWest Health System.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

PrimeWest Health System (Continued)

Pipestone County has since joined Southwest Health and Human Services for public health and human services functions. The partnership is organized to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care as authorized by Minn. Stat. § 256B.692. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs in complying with Minnesota Department of Health requirements as set forth in Minn. Stat. chs. 62D and 62N.

Control of the PrimeWest Health System is vested in a Joint Powers Board, composed of two Commissioners from each member county (one active and one alternate). Each member of the Joint Powers Board is appointed by the County Commissioners of the county represented.

In the event of termination of the joint powers agreement, all assets owned pursuant to this agreement shall be sold, and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share of each member's county-based purchasing eligible population.

Douglas County acts as fiscal agent for the PrimeWest Health System and reports the cash transactions as an investment trust fund on its financial statements. Financing is provided by Medical Assistance and General Assistance Medical Care payments from the Minnesota Department of Human Services.

Complete financial information can be obtained from its administrative office at PrimeWest Health, 2209 Jefferson Street, Suite 101, Alexandria, Minnesota 56308.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Supporting Hands Nurse Family Partnership Board

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 145A.17 and 471.59 and a joint powers agreement, effective May 31, 2007. The Board is comprised of one representative from each county to the agreement. The counties in the agreement are Big Stone, Chippewa, Douglas, Grant, Lac qui Parle, Lincoln, Lyon, McLeod, Meeker, Murray, Pipestone, Pope, Redwood, Renville, Stevens, Swift, Traverse, and Yellow Medicine. Southwest Health and Human Services represents Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock Counties in this agreement. The purpose of this agreement is to organize, govern, plan, and administer a multi-county based Nurse Family Partnership Program specifically within the jurisdictional boundaries of the counties involved.

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2014, Southwest Health and Human Services made \$158,852 in contributions to the Partnership.

McLeod County acts as fiscal agent for Supporting Hands Nurse Family Partnership. A complete financial report of the Supporting Hands Nurse Family Partnership can be obtained from McLeod County at Supporting Hands Nurse Family Partnership, McLeod County, 830 - 11th Street East, Glencoe, Minnesota 55336.

Southern Prairie Health Purchasing Alliance

Chippewa, Cottonwood, Jackson, Kandiyohi, Lincoln, Lyon, Murray, Nobles, Redwood, Rock, Swift, and Yellow Medicine Counties entered into a joint powers agreement on June 26, 2012, to establish the Southern Prairie Health Purchasing Alliance pursuant to the provisions of Minn. Stat. § 471.59. Southwest Health and Human Services represents Lincoln, Lyon, Murray, Redwood, and Rock Counties in this agreement. The purpose of the Alliance is to plan, formulate, operate, and govern a rural care delivery system to improve the health and quality of life of the citizens of member counties. The Joint Powers Board is composed of one representative from each county.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

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

C. Jointly-Governed Organizations

Lyon Murray Families Project Collaborative

The Lyon Murray Families Project Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. The current members are Southwest Health and Human Services, Western Mental Health, Western Community Action, Marshall Public Schools, Murray County Central Schools, and Russell-Tyler-Ruthton Public Schools. The governing board is composed of eight members. Southwest Health and Human Services acts as fiscal agent for the Lyon Murray Families Project Collaborative and reports the fiscal transactions of the Collaborative as an agency fund. Southwest Health and Human Services did not contribute to the Collaborative in 2014.

Rock-Pipestone Family Services Collaborative

The Rock-Pipestone Family Services Collaborative was established December 9, 2004, pursuant to Minn. Stat. §§ 471.59 and 124D.23. The purpose of the Collaborative is to provide an interagency approach to providing child and family services. The management of the Rock-Pipestone Family Services Collaborative is vested in a governing board composed of 16 members. Each member appoints its representative for a one-year term. No single member party retains control over the operations or has oversight responsibility for the Collaborative. Southwest Health and Human Services acts as fiscal agent for the Rock-Pipestone Family Services Collaborative and reports the fiscal transactions of the Collaborative as an agency fund. Southwest Health and Human Services did not contribute to the Collaborative in 2014.

Redwood Family Service Collaborative

The Redwood Family Service Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. This was transferred to Southwest Health and Human Services on January 1, 2013, when Redwood County joined Southwest Health and Human Services. Southwest Health and Human Services, in an agent capacity, reports the cash transactions of the Collaborative as an agency fund in its financial statements. Southwest Health and Human Services has no operational or financial control over the Collaborative. Southwest Health and Human Services did not contribute to the Collaborative in 2014.

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REQUIRED SUPPLEMENTARY INFORMATION

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**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 19,535,539	\$ 19,535,539	\$ 20,945,858	\$ 1,410,319
Charges for services	1,314,500	1,314,500	1,750,717	436,217
Investment earnings	8,500	8,500	67,983	59,483
Miscellaneous	864,600	864,600	412,206	(452,394)
Total Revenues	\$ 21,723,139	\$ 21,723,139	\$ 23,176,764	\$ 1,453,625
Expenditures				
Current				
Human services				
Administrative	\$ 66,638	\$ 66,638	\$ 210,208	\$ (143,570)
Income maintenance	6,722,715	6,722,715	7,106,898	(384,183)
Social services	14,951,989	14,951,989	15,293,362	(341,373)
Information systems	281,797	281,797	286,770	(4,973)
Total human services	\$ 22,023,139	\$ 22,023,139	\$ 22,897,238	\$ (874,099)
Debt service				
Principal	\$ -	\$ -	\$ 7,922	\$ (7,922)
Interest	-	-	3,554	(3,554)
Total debt service	\$ -	\$ -	\$ 11,476	\$ (11,476)
Total Expenditures	\$ 22,023,139	\$ 22,023,139	\$ 22,908,714	\$ (885,575)
Excess of Revenues Over (Under) Expenditures	\$ (300,000)	\$ (300,000)	\$ 268,050	\$ 568,050
Other Financing Sources (Uses)				
Capital lease purchase	-	-	73,495	73,495
Special Item				
Redwood County contribution to Southwest Health and Human Services	300,000	300,000	300,000	-
Net Change in Fund Balance	\$ -	\$ -	\$ 641,545	\$ 641,545
Fund Balance - January 1	5,098,903	5,098,903	5,098,903	-
Fund Balance - December 31	\$ 5,098,903	\$ 5,098,903	\$ 5,740,448	\$ 641,545

The notes to the required supplementary information are an integral part of this schedule.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
HEALTH SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 2,616,604	\$ 2,616,604	\$ 2,629,761	\$ 13,157
Charges for services	517,660	517,660	496,482	(21,178)
Investment earnings	-	-	15,549	15,549
Miscellaneous	13,550	13,550	98,486	84,936
Total Revenues	\$ 3,147,814	\$ 3,147,814	\$ 3,240,278	\$ 92,464
Expenditures				
Current				
Health				
Administration	\$ 560,326	\$ 560,326	\$ 762,693	\$ (202,367)
Nursing service	1,907,136	1,907,136	1,777,120	130,016
Health education	517,930	517,930	575,879	(57,949)
Environmental health	162,422	162,422	149,511	12,911
Total health	\$ 3,147,814	\$ 3,147,814	\$ 3,265,203	\$ (117,389)
Debt service				
Principal	\$ -	\$ -	\$ 1,398	\$ (1,398)
Interest	-	-	627	(627)
Total debt service	\$ -	\$ -	\$ 2,025	\$ (2,025)
Total Expenditures	\$ 3,147,814	\$ 3,147,814	\$ 3,267,228	\$ (119,414)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (26,950)	\$ (26,950)
Other Financing Sources (Uses)				
Capital lease purchase	-	-	12,970	12,970
Net Change in Fund Balance	\$ -	\$ -	\$ (13,980)	\$ (13,980)
Fund Balance - January 1	1,986,183	1,986,183	1,986,183	-
Fund Balance - December 31	\$ 1,986,183	\$ 1,986,183	\$ 1,972,203	\$ (13,980)

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT A-3

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2011	\$ -	\$1,788,725	\$1,788,725	0.0%	\$4,825,506	37.1%
January 1, 2014	-	2,596,584	2,596,584	0.0	9,508,973	27.3

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**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. General Budget Policies

The Health and Human Services Governing Board adopts estimated revenue and expenditure budgets for the General Fund and Health Services Special Revenue Fund. The expenditure budget is approved at the fund level.

The budgets may be amended or modified at any time by the Health and Human Services Governing Board. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the General Fund and the Health Services Special Revenue Fund.

2. Budget Basis of Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles.

3. Budget Amendments

There were no budget amendments during 2014.

4. Excess of Expenditures over Budget

The following individual major funds had expenditures in excess of budget for the year ended December 31, 2014:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 22,908,714	\$ 22,023,139	\$ 885,575
Health Services Special Revenue Fund	3,267,228	3,147,814	119,414

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

5. Other Postemployment Benefits - Funded Status

Since the Health and Human Services has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the accrued liability for postemployment benefits is zero. Currently, only two actuarial valuations are available. As the information becomes available, future reports will provide additional trend analysis to meet the three valuation funding status requirement.

See Note 3.B. in the notes to the financial statements for additional information regarding the Health and Human Services' other postemployment benefits.

6. Other Postemployment Benefits - Change in Population Covered (Covered Payroll)

Since the last actuarial valuation as of January 1, 2011, employees from Pipestone, Redwood, and Rock Counties were added to Southwest Health and Human Services.

7. Other Postemployment Benefits - Significant Plan Provisions and Actuarial Assumption Changes

2014

Plan Provisions

- There have been no plan changes since the last actuarial valuation as of January 1, 2011.

Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality table was updated to reflect the projection of 2000 rates to 2014 based on Scale BB.
- The discount rate was changed from 4.5 percent to 4.0 percent.

SUPPLEMENTARY INFORMATION

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**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

AGENCY FUNDS

LCTS Lyon Murray Collaborative Fund - to account for the collection and disbursement of funds for the Lyon Murray Families Project Collaborative.

LCTS Rock-Pipestone Collaborative Fund - to account for the collection and disbursement of funds for the Rock Pipestone Family Services Collaborative.

LCTS Redwood Collaborative Fund - to account for the collection and disbursement of funds for the Redwood Family Service Collaborative.

Local Advisory Council Fund - to account for the collection and disbursement of funds for the Local Advisory Council.

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**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT B-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>LCTS LYON MURRAY COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 115,833	\$ 118,374	\$ 96,285	\$ 137,922
<u>Liabilities</u>				
Due to other governments	\$ 115,833	\$ 118,374	\$ 96,285	\$ 137,922
 <u>LCTS ROCK-PIPESTONE COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 38,377	\$ 47,747	\$ 15,528	\$ 70,596
<u>Liabilities</u>				
Due to other governments	\$ 38,377	\$ 47,747	\$ 15,528	\$ 70,596
 <u>LCTS REDWOOD COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 102,330	\$ 147,391	\$ 165,480	\$ 84,241
<u>Liabilities</u>				
Due to other governments	\$ 102,330	\$ 147,391	\$ 165,480	\$ 84,241

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

**EXHIBIT B-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>LOCAL ADVISORY COUNCIL</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,773	\$ -	\$ 1,773
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,773	\$ -	\$ 1,773
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 256,540	\$ 315,285	\$ 277,293	\$ 294,532
<u>Liabilities</u>				
Due to other governments	\$ 256,540	\$ 315,285	\$ 277,293	\$ 294,532

OTHER SCHEDULES

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**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT C-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2014**

Shared Revenue	
Contributions from counties	<u>\$ 9,776,118</u>
Reimbursement for Services	
Des Moines Valley Health and Human Services	\$ 76,959
Minnesota Department of Human Services	<u>2,078,499</u>
Total reimbursement for services	<u>\$ 2,155,458</u>
Payments	
Local	
Local contributions	<u>\$ 98,457</u>
Grants	
State	
Minnesota Department of Health	\$ 574,838
Human Services	<u>4,375,047</u>
Total state	<u>\$ 4,949,885</u>
Federal	
Department of Agriculture	\$ 1,165,586
Education	13,730
Health and Human Services	<u>5,416,385</u>
Total federal	<u>\$ 6,595,701</u>
Total state and federal grants	<u>\$ 11,545,586</u>
Total Intergovernmental Revenue	<u><u>\$ 23,575,619</u></u>

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT C-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

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	\$ 463,139
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	702,447
Total U.S. Department of Agriculture		\$ 1,165,586
U.S. Department of Education		
Passed Through Minnesota Department of Health Special Education - Grants for Infants and Families	84.181	\$ 13,730
U.S. Department of Health and Human Services		
Passed Through the Association of Food and Drug Officials Food and Drug Administration - Research	93.103	\$ 3,000
Passed Through the National Association of County and City Health Officials Medical Reserve Corps Small Grant Program	93.008	3,500
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	112,059
Universal Newborn Hearing Screening	93.251	1,675
Immunization Cooperative Agreements	93.268	4,450
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	1,225
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families CFDA 93.558 \$629,271)	93.558	127,876
State Grants to Promote Health Information Technology - ARRA	93.719	68,611
Maternal and Child Health Services Block Grant to the States	93.994	87,993
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	73,280
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families CFDA 93.558 \$629,271)	93.558	501,395
Child Support Enforcement	93.563	1,359,296
Refugee and Entrant Assistance - State-Administered Programs	93.566	3,156
Child Care and Development Block Grant	93.575	37,656
Stephanie Tubbs Jones Child Welfare Services Program	93.645	13,322
Foster Care - Title IV-E	93.658	223,718
Social Services Block Grant	93.667	534,398
Chafee Foster Care Independence Program	93.674	32,717
Children's Health Insurance Program	93.767	278
Medical Assistance Program	93.778	2,217,882
Block Grants for Community Mental Health Services	93.958	8,898
Total U.S. Department of Health and Human Services		\$ 5,416,385
Total Federal Awards		\$ 6,595,701

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Southwest Health and Human Services. The Health and Human Services' reporting entity is defined in Note 1 to the basic financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Southwest Health and Human Services under programs of the federal government for the year ended December 31, 2014. 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 Southwest Health and Human Services, it is not intended to and does not present the financial position, changes in net position, or cash flows of Southwest Health and Human 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.

4. Subrecipients

The Health and Human Services did not pass any federal awards through to subrecipients during the year ended December 31, 2014.

5. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

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**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

Child Support Enforcement	CFDA #93.563
Medical Assistance Program	CFDA #93.778

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

Southwest Health and Human Services qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

Finding 2014-001

Audit Adjustments

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.

Condition: During our audit, we proposed audit adjustments that resulted in significant changes to the Health and Human Services' financial statements. The adjustments 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 misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. These adjustments were found in the audit; however, independent external auditors cannot be considered part of the Health and Human Services' internal control. Some of the adjustments required additional time by the auditors to determine the correct balances.

Effect: The following audit adjustments were necessary to be recorded for December 31, 2014:

Governmental Activities

- Increased construction in progress assets and decreased equipment assets by \$79,276 to reverse a project completed in 2014 that was capitalized twice in error; and
- increased equipment assets and capital leases payable by \$86,465 for unrecorded copier and postage machine capital leases.

Cause: Procedures are not in place to consider the full extent of all entries needed for financial reporting, and Health and Human Services' staff did not consider controls over calculating the proper amounts of balances and recording certain accounting transactions.

Recommendation: We recommend the Health and Human Services' staff review the financial statements' closing procedures, and the trial balances and journal entries in detail to ensure that all significant adjustments have been made that are considered necessary to fairly state the Health and Human Services' financial statements in accordance with generally accepted accounting principles. We also recommend that the Health and Human Services modify internal controls over financial reporting to detect misstatements in the financial statements.

Client's Response:

Southwest Health and Human Services is now aware of the items indicated and will make sure items are not capitalized more than once and will keep records of copier leases with the required items so that adjustments are not required in future years. Southwest Health and Human Services will review audit adjustments, trial balances, and journal entries from this audit to increase understanding and knowledge so that for future audits this information can be prepared by Southwest Health and Human Services.

Finding 2014-002

Credit Card Deficiencies

Criteria: Sound internal controls should provide a system to ensure that all credit card purchases are supported by itemized receipts. Additionally, Southwest Health and Human Services' credit card policy requires such documentation, and Minn. Stat. § 471.38, subd. 1, requires claims presented for payment must be in writing and itemized. Monthly statements received from a credit card company lack sufficient detail to comply with these requirements.

Condition: During control testing, we reviewed five credit card claims paid by the Health and Human Services. One claim included an invoice from WEX Bank with receipts to support only 107 of the 117 transactions. We also noted the Health and Human Services' credit card policy indicates the credit cards may not be used for meal expenses. The credit card has been used for meal expenses allowable by grants, however.

Context: Documentation of claims paid is a fundamental requirement of a sound accounting system; it is the primary evidence used to support and explain the nature of the Health and Human Services' cash outlays and expenditures recorded in the general ledger. The meals charged on the cards were for grants, though the current credit card policy does not provide for exceptions for meal expenses allowable by grants.

Effect: Billings received from a credit card company lack sufficient detail to permit the Board to review and approve expenditures incurred by using credit cards. In order to pay these bills, the Health and Human Services must have itemized invoices or receipts to support items charged. According to the Health and Human Services' credit card policy, meals are unauthorized purchases on the credit card. No exceptions are provided if meal expenses charged are allowable by grants.

Cause: Accounting personnel reviewing and authorizing payment of the credit card claims either did not request the required supporting documentation from staff timely, or did not ensure the documentation was in compliance with the Health and Human Services' credit card policy before paying the credit card claim.

Recommendation: We recommend Southwest Health and Human Services adhere to Minn. Stat. § 471.38, subd. 1, and to the Health and Human Services' credit card policy. Personnel reviewing the claims should ensure that credit card claims are accompanied with itemized vendor invoices or receipts that support all charges. We also recommend if Southwest Health and Human Services permits meal expenses allowable by grants to be charged on credit cards, such exception be provided for in its credit card policy.

Client's Response:

Southwest Health and Human Services has already modified the policy and practice regarding the WEX Bank account (gas card). Staff have been advised of the need for receipts. The credit card policy will also be amended to allow for payment of food items that are considered grant or program supplies. Individual meals that are eligible for reimbursement will still not be charged on the agency credit card.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2011-006

Eligibility Testing

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778)

Pass-Through Agency: Minnesota Department of Human Services

Criteria: OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Condition: The Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by the Health and Human Services to support the eligibility determination process. While supervisory case reviews are performed to provide reasonable assurance of compliance with grant requirements for eligibility, not all documentation was updated in MAXIS to support participant eligibility. The following instances were noted in our sample of 40 cases tested:

- Two cases did not have verification of asset requirements. For these cases, the most recent bank account balance was not updated in MAXIS.

Questioned Costs: Not applicable. The Health and Human Services administers the program, but benefits to participants in this program are paid by the State of Minnesota.

Context: The State of Minnesota contracts with the Health and Human Services to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility) while the Minnesota Department of Human Services maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to participants.

Effect: Not updating information in MAXIS increases the risk that clients will receive benefits when they are not eligible.

Cause: Program personnel entering case information into MAXIS did not ensure all required information was updated in MAXIS.

Recommendation: We recommend that the Health and Human Services implement additional review procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is obtained and properly updated in MAXIS. In addition, consideration should be given to providing additional training to program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Kathy Herding/Jennifer Beek

Corrective Action Planned:

Southwest Health and Human Services will work towards ensuring there is proper documentation to support eligibility. This includes assuring staff are properly trained.

Anticipated Completion Date:

December 31, 2014

IV. OTHER ITEM FOR CONSIDERATION

GASB Statement 68, Accounting and Financial Reporting for Pensions

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

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

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

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



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

Independent Auditor's Report

Members of the Joint Health and Human Services Board
Southwest Health and Human Services
Marshall, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Health and Human Services as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Health and Human Services' basic financial statements, and have issued our report thereon dated August 13, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southwest Health and Human Services' internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health and Human Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health and Human 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 and Human Services' financial statements will not be prevented, or detected and corrected, on a timely

basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questions Costs as items 2014-001 and 2014-002, that we consider to be a significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Health and Human 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 the Health and Human Services does not have debt.

In connection with our audit, nothing came to our attention that caused us to believe that Southwest Health and Human 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 and Human Services' noncompliance with the above referenced provisions.

Other Matters

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the Health and Human Services, and it is reported for that purpose.

Southwest Health and Human Services' Response to Findings

Southwest Health and Human Services' responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The Health and Human Services' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 13, 2015

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

Independent Auditor's Report

Members of the Joint Health and Human Services Board
Southwest Health and Human Services
Marshall, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Southwest Health and Human Services' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Health and Human Services' major federal programs for the year ended December 31, 2014. Southwest Health and Human Services' major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Southwest Health and Human Services complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2011-006. Our opinion on each major federal program is not modified with respect to this matter.

Southwest Health and Human Services' response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Southwest Health and Human Services' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2011-006, that we consider to be a significant deficiency.

Southwest Health and Human Services' response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Southwest Health and Human Services' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

August 13, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR