

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

FOR THE YEAR ENDED DECEMBER 31, 2012

## **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, 2012**



**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  
2012

Health and Human Services Governing Board	County	Appointment Expires
Chair		
Steve Ritter	Lyon	December 31, 2012
Vice Chair		
Robert Moline	Murray	December 31, 2012
Members		
Joan Jagt	Lincoln	December 31, 2012
Curtis Blumeyer	Lincoln	December 31, 2012
Robert Fenske	Lyon	December 31, 2012
Kevin Vickerman	Murray	December 31, 2012
Marvin Tinklenberg	Pipestone	December 31, 2012
Robert Jarchow	Rock	December 31, 2012
Ronald Boyenga	Rock	December 31, 2012
<hr/> Human Services Board <hr/>		
Chair		
Kevin Vickerman	Murray	December 31, 2012
Vice Chair		
Joan Jagt	Lincoln	December 31, 2012
Secretary		
Lois Schmidt	Lyon	July 5, 2013
Members		
Donald Evers	Lincoln	December 31, 2012
Robert Fenske	Lyon	December 31, 2012
Steve Ritter	Lyon	December 31, 2012
Curtis Blumeyer	Lincoln	December 31, 2012
Gerald Magnus	Murray	December 31, 2012
Gail Byers	Murray	July 5, 2013
Pam VanOverbeke	Lincoln	July 5, 2013
Robert Moline	Murray	December 31, 2012
Robert Jarchow	Rock	December 31, 2012
Ronald Boyenga	Rock	December 31, 2012
Richard Bakken	Rock	December 31, 2012

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

ORGANIZATION  
2012  
(Continued)

Community Health Board	County	Appointment Expires
Chair		
Curtis Blumeyer	Lincoln	December 31, 2012
Vice Chair		
Marvin Tinklenberg	Pipestone	December 31, 2012
Members		
Steve Ritter	Lyon	December 31, 2012
Robert Fenske	Lyon	December 31, 2012
Robert Moline	Murray	December 31, 2012
Robert Jarchow	Rock	December 31, 2012
Ronald Boyenga	Rock	December 31, 2012
Director		
Christopher Sorensen		Indefinite
Deputy Director		
Nancy Walker		Indefinite
Fiscal Supervisor II		
Karla Drown		Indefinite
Attorney		
William J. Toulouse		Indefinite



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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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SAINT PAUL, MN 55103-2139

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### INDEPENDENT AUDITOR'S REPORT

Members of the Joint Health and Human Services Board  
Southwest Health and Human Services

#### **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, 2012, 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, 2012, and the respective changes in financial position 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 September 9, 2013, 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

September 9, 2013

*/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, 2012  
(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, 2012. 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.

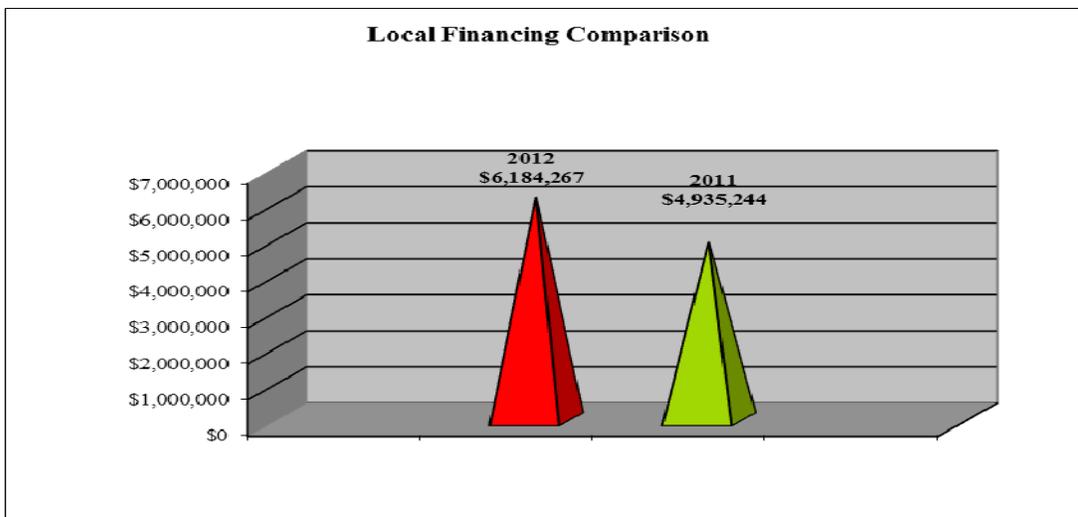
SWHHS began official operations on January 1, 2011, and performs health and human services functions formerly performed by the two previous joint ventures. SWHHS is governed by a Joint Health and Human Services Board, made up of one Commissioner (or alternate) from each county serving on the Community 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 2012, 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 2012 was based on \$6.00 per capita.

## FINANCIAL HIGHLIGHTS

Governmental activities' total net position is \$5,277,383, of which \$422,762 is the net investment in capital assets (Exhibit 1). In 2012, governmental activities' total net position increased by \$1,029,686. Local financing for the Health and Human Services in 2012 was \$6,184,267, which comprised 43.1 percent of the total intergovernmental revenue. Total federal and state grants comprised 47.9 percent of the total intergovernmental revenue. Compensated absences totaled \$530,668, and the net other postemployment benefits (OPEB) obligation totaled \$722,882. Comparing 2012 with 2011, the following table shows local financing costs increased with 2011 through 2012. This is in relation to Rock County's Health and Human Services joining the joint powers organization (JPO) of Southwest Health and Human Services on January 1, 2012.

### Local Financing Revenue

	<u>2012</u>	<u>2011</u>
Payments from participating counties	<u>\$ 6,184,267</u>	<u>\$ 4,935,244</u>



## 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 and fund financial statements, a statement of fiduciary net position for the agency funds, 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.

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 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.

## 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 \$5,277,383. Eight percent of the Health and Human Services' net position reflects its 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 2011 to 2012:

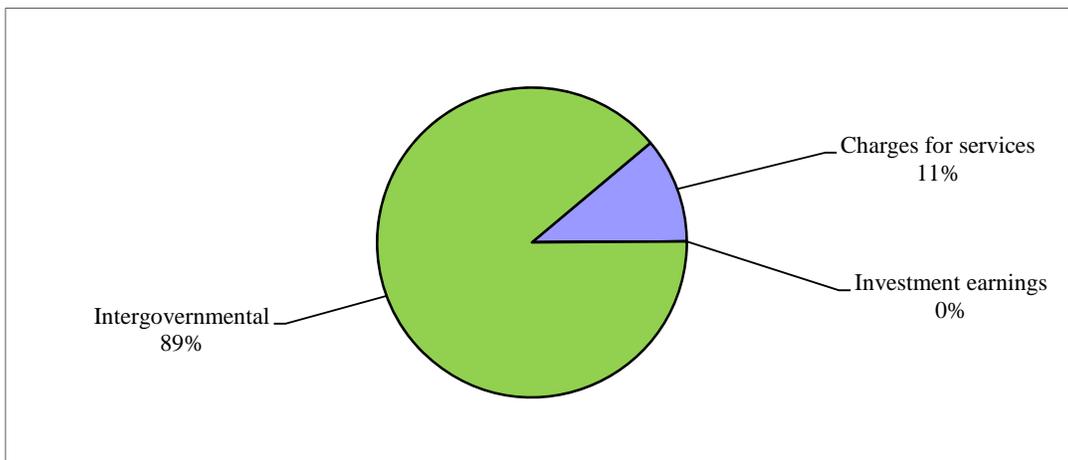
	Net Position		Percent (%) Change
	2011	2012	
<b>Assets</b>			
Current assets	\$ 5,706,661	\$ 7,328,647	28.4
Capital assets, net of depreciation	254,503	422,762	66.1
<b>Total Assets</b>	<b>\$ 5,961,164</b>	<b>\$ 7,751,409</b>	<b>30.0</b>
<b>Liabilities</b>			
Current liabilities	\$ 758,808	\$ 1,220,476	60.8
Long-term liabilities	954,659	1,253,550	31.3
<b>Total Liabilities</b>	<b>\$ 1,713,467</b>	<b>\$ 2,474,026</b>	<b>44.4</b>
<b>Net Position</b>			
Net investment in capital assets	\$ 254,503	\$ 422,762	66.1
Restricted for health	-	75,129	100.0
Unrestricted	3,993,194	4,779,492	19.7
<b>Total Net Position</b>	<b>\$ 4,247,697</b>	<b>\$ 5,277,383</b>	<b>24.2</b>

(Unaudited)

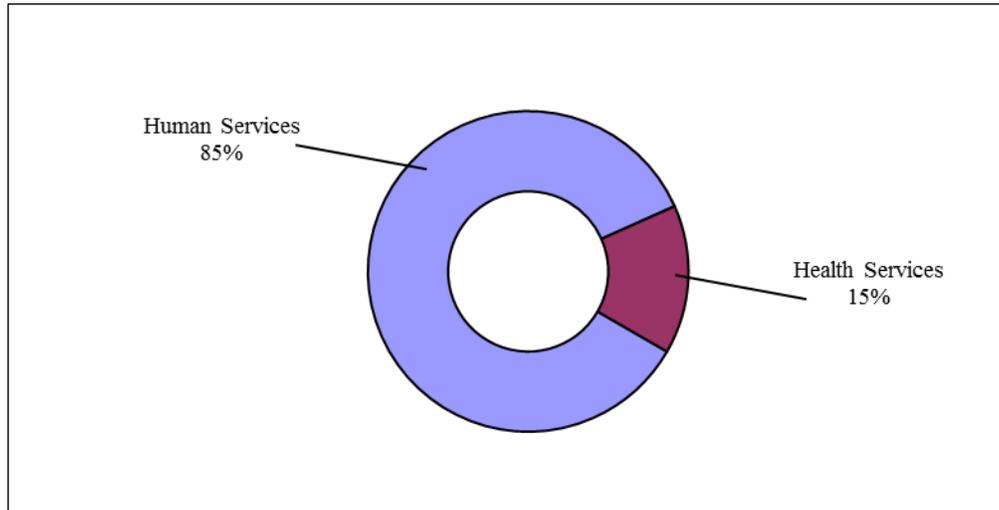
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	Activities		Percent (%) Change
	2011	2012	
<b>Revenues</b>			
Intergovernmental	\$ 11,579,822	\$ 14,358,982	24.0
Charges for services	1,336,567	1,804,934	35.0
Investment earnings	12,718	7,698	(39.5)
Miscellaneous	71,450	-	(100.0)
<b>Total Revenues</b>	<b>\$ 13,000,557</b>	<b>\$ 16,171,614</b>	<b>24.4</b>
<b>Expenses</b>			
Human Services	\$ 11,081,255	\$ 13,606,753	22.8
Health Services	2,205,359	2,374,324	7.7
<b>Total Expenses</b>	<b>\$ 13,286,614</b>	<b>\$ 15,981,077</b>	<b>20.3</b>
Change in Net Position Before Special Item	\$ (286,057)	\$ 190,537	
Special item - Rock County contribution	-	839,149	
Change in Net Position	\$ (286,057)	\$ 1,029,686	
Net Position - Beginning	4,533,754	4,247,697	
Net Position - Ending	\$ 4,247,697	\$ 5,277,383	24.2

**Revenue - 2012  
\$16,171,614**



**Expenses - 2012**  
**\$15,981,077**



As shown in the statement of activities on Exhibit 2, the amount that was received through intergovernmental revenue was 89 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 \$6,108,171, an increase of \$1,160,318 in comparison with the prior year. Of the combined ending fund balances, \$6,033,042 represents assigned and unassigned fund balance which is available for spending at the agency's discretion. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been committed for various reasons either by state law or grant agreements.

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 \$4,622,250. The General Fund's unassigned fund balance represents 33.9 percent of total General Fund expenditures. During 2012, the ending fund balance increased by \$798,275, primarily due to the addition of Rock County to Southwest Health and Human Services (\$587,775) and receiving \$184,391 more in revenues than was expected and spending less than was budgeted.

The Health Services Special Revenue Fund had an assigned fund balance of \$1,410,792 and a restricted for unspent grant money fund balance of \$75,129 at fiscal year-end. The ending balance increased by \$362,043 during 2012, primarily due to the addition of Rock County to Southwest Health and Human Services (\$251,374) and receiving more in revenues than was expected and spending less than was budgeted.

### General Fund

<u>Revenues</u>	<u>Budgeted Amount</u>	<u>Actual Amount</u>
Intergovernmental	\$ 12,332,401	\$ 12,503,214
Charges for services	900,890	818,990
Investment earnings	1,050	1,735
Miscellaneous	<u>407,327</u>	<u>502,120</u>
Total Revenues	<u>\$ 13,641,668</u>	<u>\$ 13,826,059</u>

### Health Services Special Revenue Fund

<u>Revenues</u>	<u>Budgeted Amount</u>	<u>Actual Amount</u>
Intergovernmental	\$ 1,728,160	\$ 1,855,768
Charges for services	512,494	457,975
Investment earnings	10,350	5,963
Miscellaneous	<u>8,800</u>	<u>25,849</u>
Total Revenues	<u>\$ 2,259,804</u>	<u>\$ 2,345,555</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 \$184,391. Areas that contributed to the increase in revenue were intergovernmental and miscellaneous. Actual expenditures were under budgeted expenditures by \$26,109. Overall, the net change in fund balance was \$798,275. The primary cause of this change was the Rock 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, 2012, is \$422,762 (net of accumulated depreciation). This investment in capital assets includes office furniture and equipment and automotive equipment. In 2012, the Health and Human Services purchased six automobiles, a new phone system for the Luverne office, and an IT management software program. Also added to the capital assets in 2012 were the assets acquired from Rock County. 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, 2012.

Office furniture and equipment	\$	254,354
Automotive equipment		<u>168,408</u>
Total Capital Assets Depreciated, Net	\$	<u>422,762</u>

### Long-Term Debt

The Health and Human Services has outstanding debt at December 31, 2012, of \$1,253,550. The outstanding debt is related to compensated absences and other postemployment benefits.

#### Governmental Activities Long-Term Liabilities

Compensated absences	\$	530,668
Other postemployment benefits		<u>722,882</u>
Total	\$	<u>1,253,550</u>

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Southwest Health and Human Services planned a balanced budget for 2012. Similar to 2011, the Health and Human Services has zero increase in grants and contributions from members for 2012. For 2012, the Health and Human Services increased capital purchasing in preparation for the new additions of Pipestone and Redwood Counties into the JPO as of January 1, 2013.

For 2012, counties experienced additional reductions in the State of Minnesota Vulnerable Child and Adult Act that reduced funding to counties but did not pose a grave concern to the overall position to Southwest Health and Human Services. The addition of Pipestone and Redwood Counties into the Joint Powers Organization was decided by the respective boards and the Governing Board for Southwest Health and Human Services approved new membership in the Joint Powers Organization to include Redwood County Health and Human Services and Pipestone County Human Services.

For 2013, adding new county systems into the JPO will provide a new opportunity to redesign Health and Human Services in southwestern Minnesota. Additional capital spending planned for information technology, Southern Prairie Community Care development, staff, and physical plant updates, will improve the services and operational capacity of Southwest Health and Human Services.

### **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, 2012**

**Assets**

Cash and pooled investments	\$ 5,896,847
Receivables - net	1,431,800
Capital assets	
Depreciable - net of accumulated depreciation	<u>422,762</u>
<b>Total Assets</b>	<b><u>\$ 7,751,409</u></b>

**Liabilities**

Accounts payable and other current liabilities	\$ 1,220,476
Long-term liabilities	
Due within one year	57,896
Due in more than one year	<u>1,195,654</u>
<b>Total Liabilities</b>	<b><u>\$ 2,474,026</u></b>

**Net Position**

Net investment in capital assets	\$ 422,762
Restricted for health	75,129
Unrestricted	<u>4,779,492</u>
<b>Total Net Position</b>	<b><u>\$ 5,277,383</u></b>

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

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Expenses</b>	<b>Program Revenues</b>	<b>Net (Expense) Revenue and Changes in Net Position</b>
<b>Functions/Programs</b>		<b>Fees, Charges, Fines, and Other</b>	<b>Operating Grants and Contributions</b>
<b>Governmental activities</b>			
Human services	\$ 13,606,753	\$ 1,321,110	\$ 6,742,371
Health services	2,374,324	483,824	1,432,344
<b>Total Governmental Activities</b>	<b>\$ 15,981,077</b>	<b>\$ 1,804,934</b>	<b>\$ 8,174,715</b>
<b>General Revenues</b>			
Grants and contributions not restricted to specific programs			\$ 6,184,267
Unrestricted investment earnings			7,698
<b>Special Item</b>			
Rock County contribution to SWHHS			839,149
<b>Total general revenues and special item</b>			<b>\$ 7,031,114</b>
<b>Change in net position</b>			<b>\$ 1,029,686</b>
<b>Net Position - Beginning</b>			<b>4,247,697</b>
<b>Net Position - Ending</b>			<b>\$ 5,277,383</b>

## **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, 2012**

	<b>General</b>	<b>Health Services</b>	<b>Total</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 4,478,634	\$ 1,418,213	\$ 5,896,847
Accounts receivable	198,577	29,885	228,462
Accrued interest receivable	166	461	627
Due from other governments	1,067,268	135,443	1,202,711
<b>Total Assets</b>	<b>\$ 5,744,645</b>	<b>\$ 1,584,002</b>	<b>\$ 7,328,647</b>
 <b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 539,003	\$ 21,934	\$ 560,937
Salaries payable	289,490	72,518	362,008
Employee medical insurance payable	169,149	-	169,149
Due to other governments	86,590	3,629	90,219
Due to other funds	38,163	-	38,163
<b>Total Liabilities</b>	<b>\$ 1,122,395</b>	<b>\$ 98,081</b>	<b>\$ 1,220,476</b>
<b>Fund Balances</b>			
Restricted for unspent grant money	\$ -	\$ 75,129	\$ 75,129
Assigned for health services	-	1,410,792	1,410,792
Unassigned	4,622,250	-	4,622,250
<b>Total Fund Balances</b>	<b>\$ 4,622,250</b>	<b>\$ 1,485,921</b>	<b>\$ 6,108,171</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,744,645</b>	<b>\$ 1,584,002</b>	<b>\$ 7,328,647</b>

**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, 2012**

<b>Fund balance - total governmental funds (Exhibit 3)</b>	<b>\$ 6,108,171</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	422,762
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	\$ (530,668)
Net OPEB obligation	(722,882)
	<u>(1,253,550)</u>
<b>Net Position of Governmental Activities (Exhibit 1)</b>	<b><u>\$ 5,277,383</u></b>

**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, 2012**

	<b>General</b>	<b>Health Services</b>	<b>Total</b>
<b>Revenues</b>			
Intergovernmental	\$ 12,503,214	\$ 1,855,768	\$ 14,358,982
Charges for services	818,990	457,975	1,276,965
Investment earnings	1,735	5,963	7,698
Miscellaneous	502,120	25,849	527,969
	<b>\$ 13,826,059</b>	<b>\$ 2,345,555</b>	<b>\$ 16,171,614</b>
<b>Expenditures</b>			
<b>Current</b>			
Human services	\$ 13,615,559	\$ -	\$ 13,615,559
Health services	-	2,234,886	2,234,886
	<b>\$ 13,615,559</b>	<b>\$ 2,234,886</b>	<b>\$ 15,850,445</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 210,500</b>	<b>\$ 110,669</b>	<b>\$ 321,169</b>
<b>Special Item</b>			
Rock County contribution to SWHHS	587,775	251,374	839,149
	<b>\$ 798,275</b>	<b>\$ 362,043</b>	<b>\$ 1,160,318</b>
<b>Net Change in Fund Balance</b>	<b>\$ 798,275</b>	<b>\$ 362,043</b>	<b>\$ 1,160,318</b>
<b>Fund Balance - January 1</b>	<b>3,823,975</b>	<b>1,123,878</b>	<b>4,947,853</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,622,250</b>	<b>\$ 1,485,921</b>	<b>\$ 6,108,171</b>

**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, 2012**

**Net change in fund balance - total governmental funds (Exhibit 5) \$ 1,160,318**

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	\$ 238,315	
Current year depreciation	<u>(70,056)</u>	168,259

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	\$ (165,136)	
Change in net OPEB liability	<u>(133,755)</u>	<u>(298,891)</u>

**Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,029,686**

**FIDUCIARY FUNDS**

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

***EXHIBIT 7***

**STATEMENT OF FIDUCIARY NET POSITION  
AGENCY FUNDS  
DECEMBER 31, 2012**

<u><b>Assets</b></u>	
Cash and pooled investments	\$ 138,583
Due from other funds	<u>38,163</u>
<b>Total Assets</b>	<b><u><u>\$ 176,746</u></u></b>
 <u><b>Liabilities</b></u>	
Due to other governments	<b><u><u>\$ 176,746</u></u></b>

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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, 2012**

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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, 2012. 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. Minnesota Statutes Chapter 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.

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. 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  
MARSHALL, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about 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.

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 that are 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.

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

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the Health and Human Services' funds, including its fiduciary funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental 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.

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

Fiduciary Funds - 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.

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

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1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The governmental activities 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Southwest Health and Human Services considers all revenues as available if collected within 60 days after the end of the current period. Charges for services and interest are considered 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.

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, and Net Position or Equity

1. Deposits and Investments

Deposits and investments are reported at their fair value at December 31, 2012, based on market prices.

Under the direction of the Investment Committee and the Board, most cash transactions are administered by the Lyon County Auditor/Treasurer.

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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments (Continued)

Southwest Health and Human Services invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). The investment in the pool is measured at the net asset value per share provided by the pool.

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 fund.

3. Capital Assets

Capital assets, which include office furniture and equipment and automotive equipment, are reported in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$1,500 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.

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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

3. Capital Assets (Continued)

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

4. 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. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

5. Deferred Revenue

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

6. Long-Term Liabilities

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net position. The fund financial statements report only liabilities expected to be financed with available, spendable financial resources.

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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

7. Classification of Net Position

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

Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted 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 and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

8. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the 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 by law through constitutional provisions or enabling legislation.

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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

8. 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 that 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 not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or any individual who has been delegated that authority by Board resolution.

Unassigned - the residual classification for the General Fund, it includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

The Health 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.

9. Minimum Fund Balance

The 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.

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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

10. Use of Estimates

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

11. Special Item

Rock County approved a resolution seeking to join Southwest Health and Human Services for both human services and community health functions. In the approved resolution, Rock County agreed to contribute \$619,000 to the human services function and \$250,900 to the community health function.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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.

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

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Health 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, 2012, 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;

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

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries 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**

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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 there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available. As of December 31, 2012, 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 Southwest 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, 2012, Southwest Health and Human Services had the following deposits and investments.

Checking account	\$ 4,333,101
Money market savings	498,000
Certificates of deposit	300,000
MAGIC Fund	<u>904,329</u>
Total Cash and Investments	<u>\$ 6,035,430</u>

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

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

As reported in the financial statements:

Governmental activities	
Cash and pooled investments	\$ 5,896,847
Agency funds	
Cash and pooled investments	<u>138,583</u>
Total	<u>\$ 6,035,430</u>

2. Receivables

Receivables as of December 31, 2012, 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	\$ 228,462	\$ -
Interest	627	-
Due from other governments	<u>1,202,711</u>	<u>-</u>
Total Governmental Activities	<u>\$ 1,431,800</u>	<u>\$ -</u>

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

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Office furniture and equipment	\$ 330,947	\$ 170,580	\$ 37,268	\$ 464,259
Automotive equipment	284,655	120,561	52,648	352,568
Total capital assets depreciated	<u>\$ 615,602</u>	<u>\$ 291,141</u>	<u>\$ 89,916</u>	<u>\$ 816,827</u>
Less: accumulated depreciation for				
Office furniture and equipment	\$ 155,974	\$ 91,199	\$ 37,268	\$ 209,905
Automotive equipment	205,125	31,683	52,648	184,160
Total accumulated depreciation	<u>\$ 361,099</u>	<u>\$ 122,882</u>	<u>\$ 89,916</u>	<u>\$ 394,065</u>
Total Capital Assets Depreciated, Net	<u>\$ 254,503</u>	<u>\$ 168,259</u>	<u>\$ -</u>	<u>\$ 422,762</u>

The increases in total capital assets depreciated and total accumulated depreciation each include \$52,826 additions of capital assets and related accumulated depreciation for assets added from Rock County. Net depreciation reported is \$70,056 (\$122,882 less \$52,826).

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

Governmental Activities	
Human services	\$ 55,617
Health services	14,439
Total Depreciation Expense - Governmental Activities	<u>\$ 70,056</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, 2012, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Agency Funds	General Fund	\$ 38,163

The outstanding balances between funds result from the time lag between the dates that: (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All balances are expected to be liquidated in the subsequent year.

C. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

Accounts payable	\$ 560,937
Salaries payable	362,008
Employee medical insurance payable	169,149
Due to other governments	90,219
Total Payables	<u>\$ 1,182,313</u>

2. Long-Term Debt

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 365,532	\$ 165,136	\$ -	\$ 530,668	\$ 57,896
Other postemployment benefits (See Note 3.B.)	589,127	211,233	77,478	722,882	-
Total	<u>\$ 954,659</u>	<u>\$ 376,369</u>	<u>\$ 77,478</u>	<u>\$ 1,253,550</u>	<u>\$ 57,896</u>

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

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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.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service (five years for those first eligible for membership after June 30, 2010). Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

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

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

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3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

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

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. Southwest 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 are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary.

The Health and Human Services is required to contribute the following percentages of annual covered payroll in 2012:

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

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

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3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Funding Policy (Continued)

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

<u>2012</u>	<u>2011</u>
\$ 419,939	\$ 324,878

In the future, a three-year disclosure will be provided as the information becomes available. These contributions are equal to the contractually required contribution rates as set by state statute.

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.

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, 2012, 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 \$54,755 for 2012.

**SOUTHWEST HEALTH AND HUMAN SERVICES  
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3. Pension Plans and Other Postemployment Benefits

B. Other Postemployment Benefits (OPEB) (Continued)

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	\$	227,432
Interest on net OPEB obligation		26,997
Adjustment to ARC		<u>(53,997)</u>
Annual OPEB cost (expense)	\$	200,432
Contributions made		<u>(77,478)</u>
Increase in net OPEB obligation	\$	122,954
Net OPEB Obligation - Beginning of Year*		<u>599,928</u>
Net OPEB Obligation - End of Year	\$	<u><u>722,882</u></u>

\*The beginning balance consists of the December 31, 2011, net OPEB obligation plus \$10,801 adjustment to the net OPEB obligation due to Rock County staff joining 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, 2011 and 2012, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2011	\$ 211,703	\$ 55,671	26.3%	\$ 589,127
December 31, 2012	200,432	77,478	38.7	722,882

**SOUTHWEST HEALTH AND HUMAN SERVICES  
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3. Pension Plans and Other Postemployment Benefits

B. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2011, 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 \$1,788,725, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,788,725. The covered payroll (annual payroll of active employees covered by the plan) was \$4,825,506, and the ratio of the UAAL to the covered payroll was 37.1 percent.

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, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses).

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

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3. Pension Plans and Other Postemployment Benefits

B. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

The annual health care cost trend is eight percent initially, reduced by decrements to an ultimate rate of five percent each year. Both rates included a three percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2012, was 25 years.

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 or omissions; injuries to employees; or natural disasters. 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. Southwest Health and Human Services purchases commercial insurance for employee health and dental coverage as well as for other risks. 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 \$460,000 in 2012 and \$470,000 in 2013. 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.

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

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4. Risk Management (Continued)

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

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Amounts received or receivable from grant 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.

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board

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

The Consortium Board shall take actions and enter into such agreements as may be necessary to plan and develop within the Southwestern Minnesota Adult Mental Health Consortium Board's geographic jurisdiction, a system of care that will serve 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.

**SOUTHWEST HEALTH AND HUMAN SERVICES  
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5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The following is a summary of the Consortium Board's annual financial report for the year ended December 31, 2011 (the latest information available):

Total assets	\$	2,127,562
Total liabilities		564,148
Total net assets		1,563,414
Total revenues		3,744,479
Total expenses		4,103,387
Net decrease to net assets		358,908

The Consortium Board reported no long-term obligations at December 31, 2011.

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained at 2200 - 23rd Street N.E., Suite 2050, Willmar, Minnesota 56201, or at the Cottonwood County Family Services Agency, Windom, Minnesota 56101.

Prime West Central County-Based Purchasing Initiative Joint Powers Board

The Prime West Central County-Based Purchasing Initiative was established in December 1998 by a joint powers agreement between ten counties under the authority of Minn. Stat. § 471.59. Three more counties joined in 2008. Pipestone County is a part of Southwest Health and Human Services. The partnership is organized to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care. 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. Funding from the state is the revenue source for this program.

Douglas County acts as fiscal agent for the Prime West Health System and reports the cash transactions as an investment trust fund on its financial statements.

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

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5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Prime West Central County-Based Purchasing Initiative Joint Powers Board  
(Continued)

Complete financial information can be obtained from its administrative office at Prime West Health Systems, Douglas County Courthouse, 305 - 8th Avenue West, Alexandria, Minnesota 56308.

Supporting Hands Nurse Family Partnership Board

The Supporting Hands Nurse Family Partnership Board was established in July 2007 by a joint powers agreement under the authority of Minn. Stat. §§ 471.59 and 145A.17. 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. Pipestone County became a member in September 2007. Lincoln, Lyon, and Murray Counties became members in January 2012. Rock County became a member in January 2013.

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. 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 830 - 11th Street East, Glencoe, Minnesota 55336.

Southern Prairie Community Care

Southern Prairie Community Care was established in August 2012 by a joint powers agreement under the authority of Minn. Stat. § 471.59. The purpose of this agreement is to establish a joint powers entity to plan, form, operate, and govern a rural care delivery system to improve the health and quality of life of the citizens of member counties who participate in government health care programs through improved coordination, management, and delivery of health care and social services through partnerships between member counties and local providers. Lincoln, Lyon, Murray, Redwood, and Rock Counties joined at the inception of Southern Prairie Community Care in 2012.

**SOUTHWEST HEALTH AND HUMAN SERVICES  
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5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southern Prairie Community Care (Continued)

The directors of the Board consist of one individual from each member county selected by the County Board of that county. Each member county also designates one individual to serve as an alternate to the duties of a designated director when serving as such during the absence of the designated director. Chippewa County acts as the fiscal agent for Southern Prairie Community Care.

Additional information about Southern Prairie Community Care can be obtained from Chippewa County at 719 North 7th Street, Montevideo, Minnesota 56265.

C. Subsequent Event

During 2012, Redwood County and Pipestone County each petitioned to join Southwest Health and Human Services. Redwood County's health and human services functions and Pipestone County's human services function will become part of Southwest Health and Human Services on January 1, 2013.

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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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 12,332,401	\$ 12,332,401	\$ 12,503,214	\$ 170,813
Charges for services	900,890	900,890	818,990	(81,900)
Investment earnings	1,050	1,050	1,735	685
Miscellaneous	407,327	407,327	502,120	94,793
<b>Total Revenues</b>	<b><u>\$ 13,641,668</u></b>	<b><u>\$ 13,641,668</u></b>	<b><u>\$ 13,826,059</u></b>	<b><u>\$ 184,391</u></b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Administrative	\$ -	\$ -	\$ 4,493	\$ (4,493)
Income maintenance	3,870,553	3,870,553	4,159,211	(288,658)
Social services	9,441,310	9,441,310	9,175,536	265,774
Information systems	329,805	329,805	276,319	53,486
<b>Total Expenditures</b>	<b><u>\$ 13,641,668</u></b>	<b><u>\$ 13,641,668</u></b>	<b><u>\$ 13,615,559</u></b>	<b><u>\$ 26,109</u></b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 210,500</b>	<b>\$ 210,500</b>
<b>Special Item</b>				
Rock County contribution	-	-	587,775	587,775
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 798,275</b>	<b>\$ 798,275</b>
<b>Fund Balance - January 1</b>	<b><u>3,823,975</u></b>	<b><u>3,823,975</u></b>	<b><u>3,823,975</u></b>	<b><u>-</u></b>
<b>Fund Balance - December 31</b>	<b><u>\$ 3,823,975</u></b>	<b><u>\$ 3,823,975</u></b>	<b><u>\$ 4,622,250</u></b>	<b><u>\$ 798,275</u></b>

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

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
HEALTH SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 1,728,160	\$ 1,728,160	\$ 1,855,768	\$ 127,608
Charges for services	512,494	512,494	457,975	(54,519)
Investment earnings	10,350	10,350	5,963	(4,387)
Miscellaneous	8,800	8,800	25,849	17,049
<b>Total Revenues</b>	<b><u>\$ 2,259,804</u></b>	<b><u>\$ 2,259,804</u></b>	<b><u>\$ 2,345,555</u></b>	<b><u>\$ 85,751</u></b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Administration	\$ 378,661	\$ 378,661	\$ 483,545	\$ (104,884)
Nursing service	1,221,771	1,221,771	1,113,667	108,104
Health education	468,941	468,941	454,025	14,916
Environmental health	190,431	190,431	183,649	6,782
<b>Total Expenditures</b>	<b><u>\$ 2,259,804</u></b>	<b><u>\$ 2,259,804</u></b>	<b><u>\$ 2,234,886</u></b>	<b><u>\$ 24,918</u></b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 110,669</b>	<b>\$ 110,669</b>
<b>Special Item</b>				
Rock County contribution	-	-	251,374	251,374
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 362,043</b>	<b>\$ 362,043</b>
<b>Fund Balance - January 1</b>	<b><u>1,123,878</u></b>	<b><u>1,123,878</u></b>	<b><u>1,123,878</u></b>	<b><u>-</u></b>
<b>Fund Balance - December 31</b>	<b><u><u>\$ 1,123,878</u></u></b>	<b><u><u>\$ 1,123,878</u></u></b>	<b><u><u>\$ 1,485,921</u></u></b>	<b><u><u>\$ 362,043</u></u></b>

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

***EXHIBIT A-3***

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2012**

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%

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

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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1. General Budget Policies

The Health and Human Services 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 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 2012.

4. 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 one actuarial valuation is 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.

5. Other Postemployment Benefits - Change in Population Covered

The projected annual required contribution (ARC) for the period January 1 through December 31, 2012, includes the liability and implicit rate subsidy benefits paid for the Rock County employees who became part of Southwest Health and Human Services on January 1, 2012.

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**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.

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

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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, 2012**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>LCTS LYON MURRAY COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 43,122	\$ 101,979	\$ 71,349	\$ 73,752
Due from other funds	-	25,538	-	25,538
<b>Total Assets</b>	<b>\$ 43,122</b>	<b>\$ 127,517</b>	<b>\$ 71,349</b>	<b>\$ 99,290</b>
<b><u>Liabilities</u></b>				
Due to other governments	<b>\$ 43,122</b>	<b>\$ 127,517</b>	<b>\$ 71,349</b>	<b>\$ 99,290</b>
 <b><u>LCTS ROCK PIPESTONE COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 139,620	\$ 74,789	\$ 64,831
Due from other funds	-	12,625	-	12,625
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 152,245</b>	<b>\$ 74,789</b>	<b>\$ 77,456</b>
<b><u>Liabilities</u></b>				
Due to other governments	<b>\$ -</b>	<b>\$ 152,245</b>	<b>\$ 74,789</b>	<b>\$ 77,456</b>
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 43,122	\$ 241,599	\$ 146,138	\$ 138,583
Due from other funds	-	38,163	-	38,163
<b>Total Assets</b>	<b>\$ 43,122</b>	<b>\$ 279,762</b>	<b>\$ 146,138</b>	<b>\$ 176,746</b>
<b><u>Liabilities</u></b>				
Due to other governments	<b>\$ 43,122</b>	<b>\$ 279,762</b>	<b>\$ 146,138</b>	<b>\$ 176,746</b>

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## **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, 2012**

<b>Shared Revenue</b>	
Contributions from counties	<u>\$ 6,184,267</u>
<b>Reimbursement for Services</b>	
<b>State</b>	
Minnesota Department of Human Services	<u>\$ 1,105,639</u>
<b>Payments</b>	
<b>Local</b>	
Local contributions	<u>\$ 187,472</u>
<b>Grants</b>	
<b>State</b>	
Minnesota Department of Health	\$ 505,231
Human Services	<u>2,505,524</u>
<b>Total state</b>	<u>\$ 3,010,755</u>
<b>Federal</b>	
Department of Agriculture	\$ 632,414
Health and Human Services	<u>3,238,435</u>
<b>Total federal</b>	<u>\$ 3,870,849</u>
<b>Total state and federal grants</b>	<u>\$ 6,881,604</u>
<b>Total Intergovernmental Revenue</b>	<u><u>\$ 14,358,982</u></u>

**SOUTHWEST HEALTH AND HUMAN SERVICES  
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*EXHIBIT C-2*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 347,133
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>285,281</u>
<b>Total U.S. Department of Agriculture</b>		<b>\$ <u>632,414</u></b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	\$ 59,973
Universal Newborn Hearing Screening	93.251	2,475
Immunization Cooperative Agreements	93.268	3,650
Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families CFDA 93.558 \$411,650)	93.558	110,543
Maternal and Child Health Services Block Grant to the States	93.994	83,392
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	81,766
Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families CFDA 93.558 \$411,650)	93.558	301,107
Emergency Contingency Fund for TANF State Program - ARRA	93.714	26,926
Child Support Enforcement	93.563	673,360
Refugee and Entrant Assistance - State-Administered Programs	93.566	490
Child Care and Development Block Grant	93.575	24,500
Community-Based Child Abuse Prevention Grants	93.590	23,476
Stephanie Tubbs Jones Child Welfare Services Program	93.645	8,575
Foster Care - Title IV-E	93.658	70,831
Social Services Block Grant	93.667	352,172
Chafee Foster Care Independence Program	93.674	32,152
Children's Health Insurance Program	93.767	78
Medical Assistance Program	93.778	1,320,469
Block Grants for Community Mental Health Services	93.958	<u>62,500</u>
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ <u>3,238,435</u></b>
<b>Total Federal Awards</b>		<b>\$ <u><u>3,870,849</u></u></b>

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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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, 2012. 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 or changes in net position 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. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Temporary Assistance for Needy Families Cluster	\$ 438,576
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5. Subrecipients

The Health and Human Services did not pass any federal awards through to subrecipients during the year ended December 31, 2012.

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

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6. 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, 2012**

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

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

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- 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:

Special Supplemental Nutrition Program for Women Infants, and Children	CFDA #10.557
Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families	CFDA #93.558
Emergency Contingency Fund for TANF State Program - State Program - ARRA	CFDA #93.714
Social Services Block Grant	CFDA #93.667
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

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

##### 11-2 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. Clarified Auditing Standards AU-C Section 265 defines a material weakness as a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** During our audit, we identified material adjustments that resulted in significant changes to the Health and Human Services' financial statements.

**Context:** The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

**Effect:** The following audit adjustments were reviewed and recorded by the appropriate Health and Human Services' staff and are reflected in the financial statements:

General Fund -

- Reduced receivables by \$294,730 for receipts related to Redwood County and Pipestone County as they did not become participating counties in the joint powers organization until January 1, 2013;
- Reclassified a special item of \$587,775 from receipts and disbursements related to Rock County joining the human services function of Southwest Health and Human Services on January 1, 2012;
- Reclassified payment of local collaborative time study (LCTS) monies of \$127,585 as a reduction of intergovernmental revenue rather than as expenditures; and

- Reclassified payments totaling \$511,376 made to the Minnesota Department of Human Services, for the state's share of Medical Assistance Program estate recoveries, as a reduction of miscellaneous revenues instead of expenditures.

Health Services Special Revenue Fund -

- Reclassified a special item of \$251,374 from receipts and disbursements related to Rock County joining the health services function of Southwest Health and Human Services on January 1, 2012.

Governmental Activities -

- Increased accumulated depreciation and expenditures by \$52,826 for depreciation previously recognized on capital assets received from Rock County upon joining Southwest Health and Human Services.

**Cause:** The Health and Human Services' staff need continued guidance on accounting principles and oversight to provide accurate and reliable information; human resource considerations, including staffing levels and qualifications, need to be addressed; controls over calculating the proper amounts of assets and liabilities did not detect a number of errors; accounting staff have not been able to keep current on accounting and financial reporting requirements; and the Health and Human Services did not consider the need for controls over the recording of certain accounting transactions.

**Recommendation:** We recommend the Health and Human Services' staff review the trial balances and journal entries in detail to ensure they have an understanding of all audit adjustments made. We also recommend that the Health and Human Services' modify internal controls over financial reporting to detect misstatements, including misclassifications, in the financial statements.

Client's Response:

*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.*

11-3 Monitoring of Internal Controls

**Criteria:** A good system of internal control includes review procedures by someone other than who prepared the information. The monitoring should be documented to show the results of the review, changes required, and who performed the work.

**Condition:** Our audit procedures detected areas and responsibilities that are performed by the Health and Human Services' staff with no documentation of any review or monitoring taking place.

- The Health and Human Services did not bill for cost-effective insurance from July 2011 through January 2012. The Health and Human Services' staff noticed this issue in February 2012 when examining a monthly report and worked to correct the matter, but did not record a receivable for the portion relating to 2011 and had not previously noticed the issue when reviewing the monthly reports for July through December. This resulted in an additional receivable of \$179,989 for the year ended December 31, 2011.
- The Health and Human Services did not bill for cost-effective insurance for Medicare from January 2011 until the issue was discovered during the audit in March 2012. As a result, the agency did not claim a total of \$53,727. Additionally, \$8,735 will not be reimbursed, as the period of availability for which these funds may be claimed has expired.
- Management indicated monitoring procedures were implemented to assure accurate and timely results. During receivables testing for the 2012 audit, it was noted that no reconciliations or monitoring of funds were completed to ensure payments for cost effective insurance premiums were being billed to the Minnesota Department of Human Services for reimbursement.

**Context:** The Health and Human Services' management is responsible for monitoring its internal controls. Monitoring involves assessing the quality of performance over time. Monitoring should occur during normal operations and includes reviews, comparisons, reconciliations, and other actions staff take in performing their duties.

**Effect:** Additional audit time was necessary to determine the status of cost-effective insurance receipts and receivables. Components of existing internal controls may not be operating as prescribed or intended since portions of the internal control structure have not been monitored on a regular basis.

**Cause:** The Health and Human Services does not have monitoring controls in place to review the general ledger for unusual revenue variances or expected revenues.

**Recommendation:** We recommend that a formal plan be developed that calls for assessing and monitoring the significant internal controls on a regular basis, no less than annually. The monitoring should be documented to show the results of the review, changes required, and who performed the work.

Client's Response:

*Southwest Health and Human Services has already implemented controls to monitor the areas of cost-effective claiming/billing referenced in the 2012 audit. In addition, we will devise internal controls to assure that appropriate revenues are received.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Segregation of Duties (11-1)**

Due to the limited number of office personnel within the Health and Human Services, segregation of the accounting functions necessary to ensure adequate internal accounting control was not possible.

**Resolution**

As result of Southwest Health and Human Services gaining additional counties/partners, the increased workload required more staff and the opportunity to improve the segregation of duties.

**Claim Approval (11-4)**

A proper approval process helps ensure that payment is made only for valid and authorized goods and services. During internal control testing, it was noted the Director does not sign warrant registers until after vendors have been paid.

**Resolution**

The Health and Human Services' warrant registers are signed by the Director or other authorized staff prior to payment.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

11-6 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 State of Minnesota maintains the computer system, MAXIS, which is used by the Health and Human Services to support the eligibility determination process. While periodic supervisory case reviews are performed to provide reasonable assurance of compliance with grant requirements for eligibility, not all documentation was available to support participant eligibility. In other circumstances, information was input into MAXIS incorrectly. The following instances were noted in our sample of 40 cases tested:

- Three cases did not have verification of asset requirements. For these cases, the most recent account balance for each case was not updated in MAXIS.
- Three cases did not have verification of income. The income in the MAXIS system did not tie to the documentation in the case files.
- An application received was not acted on during the correct month, resulting in a one month delay of the “eligible” status.

**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 state maintains the computer systems supporting the eligibility determination process and actually pays the benefits to participants.

**Effect:** The improper input of information into MAXIS and lack of follow-up of issues increases the risk that a client will receive benefits when they are not eligible.

**Cause:** Program personnel entering case information into MAXIS did not ensure all required information was input into MAXIS correctly or that all required information was obtained and/or retained.

**Recommendation:** We recommend that the Health and Human Services implement review procedures to provide reasonable assurance that all necessary documentation to support an eligibility determination is obtained. 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/Lyn Rayburn*

Corrective Action Planned:

*SWHHS will work towards ensuring there is proper documentation to support eligibility. This includes assuring staff are properly trained.*

Anticipated Completion Date:

*December 31, 2013*

11-7 Identification of Federal Awards

<b>Programs</b>	<b>Pass-Through Agencies</b>
<b>U.S. Department of Health and Human Services</b>	
Temporary Assistance for Needy Families (TANF) Cluster	
Temporary Assistance for Needy Families (CFDA No. 93.558)	Minnesota Department of Health
Temporary Assistance for Needy Families (CFDA No. 93.558)	Minnesota Department of Human Services
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA (CFDA No. 93.714)	Minnesota Department of Human Services
Medical Assistance Program (CFDA No. 93.778)	Minnesota Department of Human Services

**Criteria:** OMB Circular A-133, Subpart C, § .300, indicates auditee responsibilities include the identification of all federal awards received and expended and the federal programs under which they were received and preparation of the Schedule of Expenditures of Federal Awards (SEFA).

**Condition:** The Health and Human Services did not adequately identify amounts received and expended for various federal awards on the SEFA. The Health and Human Services provided a SEFA for 2012 reporting total federal expenditures of \$3,694,542, while the SEFA after audit adjustments reported total expenditures of \$3,870,849, resulting in a difference of \$176,307.

**Questioned Costs:** None.

**Context:** In 2012, the Health and Human Services expended \$3,870,849 in federal awards; the net understatement of federal expenditures due to using cash basis federal revenues as federal awards on the SEFA provided by the Health and Human Services was \$176,307.

**Effect:** The inability to identify and track federal expenditures or to detect significant misstatements in the SEFA increases the likelihood that the federal expenditures would not be fairly reported.

**Cause:** The Health and Human Services does not have procedures in place to ensure that federal award programs are adequately identified, accounted for, and reported on the SEFA and in the financial statements.

**Recommendation:** We recommend the Health and Human Services' management develop a system and written procedures that will allow staff to correctly identify and classify all federal financial assistance received and expended. Procedures should include determination of the correct program CFDA number, revenue source, and program name. The process must also be monitored to ensure it is working properly.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Karla Drown*

Corrective Action Planned:

*SWHHS will develop a system of written procedures to assist staff in identifying and classifying federal awards. Procedures should include correct program CFDA number, revenue source, and program. The procedures will also include monitoring procedures.*

Anticipated Completion Date:

*December 31, 2013*

PREVIOUSLY REPORTED ITEM RESOLVED

**Eligibility Controls (11-5)**

Standard internal control procedures should include a review process for case files to ensure the intake functions related to eligibility requirements are met. During audit testing of controls over MA case files, we noted no documented review process of case files by the program supervisor.

**Resolution**

Southwest Health and Human Services implemented case review procedures where the Financial Assistance Supervisor identifies cases for review by staff, sets deadlines for the review, and monitors the completion by staff. These reviews are retained by the Financial Assistance Supervisor.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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

#### Independent Auditor's Report

Members of the Joint Health and Human Services Board  
Southwest Health and Human Services

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Health and Human Services as of and for the year ended December 31, 2012, 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 September 9, 2013.

#### **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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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 may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control over financial reporting that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 11-2 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency, described in the accompanying Schedule of Findings and Questioned Costs as item 11-3, to be a significant deficiency.

### **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: 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**

Southwest Health and Human Services' written 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 subject 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

September 9, 2013

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REBECCA OTTO  
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# STATE OF MINNESOTA

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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

#### **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, 2012. 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, 2012.

### ***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 11-6. 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 our 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 certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 11-6 and 11-7, that we consider to be significant deficiencies.

Southwest Health and Human Services' responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Southwest Health and Human Services' responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 9, 2013

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR