

# 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, 2011

## **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.

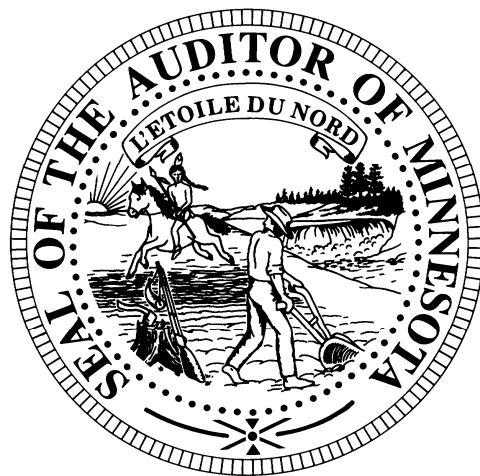
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

**For the Year Ended December 31, 2011**



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

ORGANIZATION  
2011

| Joint Health and Human Services Board | County    | Appointment Expires |
|---------------------------------------|-----------|---------------------|
| Chair                                 |           |                     |
| Steve Ritter                          | Lyon      | December 31, 2011   |
| Vice Chair                            |           |                     |
| Robert Moline                         | Murray    | December 31, 2011   |
| Secretary                             |           |                     |
| Joan Jagt                             | Lincoln   | December 31, 2011   |
| Members                               |           |                     |
| Curtis Blumeyer                       | Lincoln   | December 31, 2011   |
| Mark Goodenow                         | Lyon      | December 31, 2011   |
| Gerald Magnus                         | Murray    | December 31, 2011   |
| Marvin Tinklenberg                    | Pipestone | December 31, 2011   |
| <hr/>                                 |           |                     |
| Human Services Board                  |           |                     |
| Chair                                 |           |                     |
| Kevin Vickerman                       | Murray    | December 31, 2011   |
| Vice Chair                            |           |                     |
| Joan Jagt                             | Lincoln   | December 31, 2011   |
| Secretary                             |           |                     |
| Ann Svendsen                          | Lincoln   | July 5, 2012        |
| Members                               |           |                     |
| Donald Evers                          | Lincoln   | December 31, 2011   |
| Robert Fenske                         | Lyon      | December 31, 2011   |
| Steve Ritter                          | Lyon      | December 31, 2011   |
| Lois Schmidt                          | Lyon      | July 5, 2012        |
| Gerald Magnus                         | Murray    | December 31, 2011   |
| Gail Byers                            | Murray    | July 5, 2012        |

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

ORGANIZATION  
2011  
(Continued)

| Community Health Board                                 | County    | Appointment Expires |
|--|-----------|---------------------|
| Chair<br>Curtis Blumeyer                               | Lincoln   | December 31, 2011   |
| Vice Chair<br>Robert Moline                            | Murray    | December 31, 2011   |
| Secretary<br>Steve Ritter                              | Lyon      | December 31, 2011   |
| Members<br>Mark Goodenow                               | Lyon      | December 31, 2011   |
| Marvin Tinklenberg                                     | Pipestone | December 31, 2011   |
| Director<br>Christopher Sorensen                       |           | Indefinite          |
| Deputy Director<br>Nancy Walker                        |           | Indefinite          |
| Accounting and Child Support Supervisor<br>Karla Drown |           | Indefinite          |
| Attorney<br>William J. Toulouse                        |           | Indefinite          |



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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

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

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, 2011, which collectively comprise the Health and Human Services' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Southwest Health and Human Services' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Health and Human Services as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D.8. to the financial statements, during the year ended December 31, 2011, the Health and Human Services adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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 GASB, 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. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, 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.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Southwest Health and Human Services' basic financial statements as a whole. The supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, 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. This 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2012, 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, 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* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

July 20, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2011  
(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, 2011. 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 will be 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 will be based on \$6.00 per capita.

## **FINANCIAL HIGHLIGHTS**

Governmental activities' total net assets are \$4,247,697, of which \$254,503 is invested in capital assets (Exhibit 1). In 2011, governmental activities' total net assets decreased by \$286,057. Local financing for the Health and Human Services in 2011 was \$4,935,244, which comprised 42.6 percent of the total intergovernmental revenue. Total federal and state grants comprised 48.7 percent of the total intergovernmental revenue. Compensated absences totaled \$365,532, and the net other postemployment benefits (OPEB) obligation totaled \$589,127. With this being the first audit for Southwest Health and Human Services, only one year is included, and comparative data will be included in future years.

## **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 assets for the agency fund, 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 assets 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 assets 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 assets 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.

## Financial Highlights

Comparative statements of net assets and activities illustrating the changes are not available, as this is the first year of operation for Southwest Health and Human Services, but will be included in future years. Financial highlights are the following:

- Total assets are \$5,961,164.
- Total liabilities are \$1,713,467.
- Total net assets are \$4,247,697, with \$3,993,194 unrestricted.
- From January 1 through December 31, 2011, net assets reduced by \$286,057.
- Compensated absences total \$365,532, and net OPEB obligations total \$589,127.
- General Fund revenues exceeded budgeted revenues by \$42,588.
- General Fund expenditures exceeded budgeted expenditures by \$153,833.
- Health Services Special Revenue Fund revenues exceeded budgeted revenues by \$112,042.
- Health Services Special Revenue Fund expenditures exceeded budgeted expenditures by \$322,480.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the Health and Human Services' financial position. The Health and Human Services' assets exceeded liabilities by \$4,247,697. Six percent of the Health and Human Services' net assets reflect its investment in capital assets. It should be noted that these assets are not available for future spending.

### Governmental Activities

|                                     | <u>2011</u>         |
|-------------------------------------|---------------------|
| Assets                              |                     |
| Current assets                      | \$ 5,706,661        |
| Capital assets, net of depreciation | <u>254,503</u>      |
| Total Assets                        | <u>\$ 5,961,164</u> |
| Liabilities                         |                     |
| Current liabilities                 | \$ 758,808          |
| Long-term liabilities               | <u>954,659</u>      |
| Total Liabilities                   | <u>\$ 1,713,467</u> |

(Unaudited)

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|                            |                     |
|----------------------------|---------------------|
|                            | <u>2011</u>         |
| Net Assets                 |                     |
| Invested in capital assets | \$ 254,503          |
| Unrestricted               | <u>3,993,194</u>    |
| Total Net Assets           | <u>\$ 4,247,697</u> |

Unrestricted net assets--the part of net assets that may be used to meet the Health and Human Services' ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--are 94 percent of net assets.

### Governmental Activities

The Health and Human Services activities decreased net assets by six percent from January 1, 2011 (\$286,057). Key elements in this decrease are as follows.

|                                    |                      |
|------------------------------------|----------------------|
|                                    | <u>2011</u>          |
| Revenues                           |                      |
| Intergovernmental                  | \$ 11,579,822        |
| Charges for services               | 1,336,567            |
| Investment earnings                | 12,718               |
| Miscellaneous                      | <u>71,450</u>        |
| Total Revenues                     | <u>\$ 13,000,557</u> |
| Expenses                           |                      |
| Human services                     | \$ 11,081,255        |
| Health services                    | <u>2,205,359</u>     |
| Total Expenses                     | <u>\$ 13,286,614</u> |
| Change in Net Assets               | \$ (286,057)         |
| Net Assets - January 1 (Note 1.E.) | <u>4,533,754</u>     |
| Net Assets - December 31           | <u>\$ 4,247,697</u>  |

The following table presents the cost of both of the Health and Human Services' program functions, as well as each function's net cost (total cost, less program revenues generated by the activity). The net cost shows the financial burden that is placed on taxpayers by each of these functions.

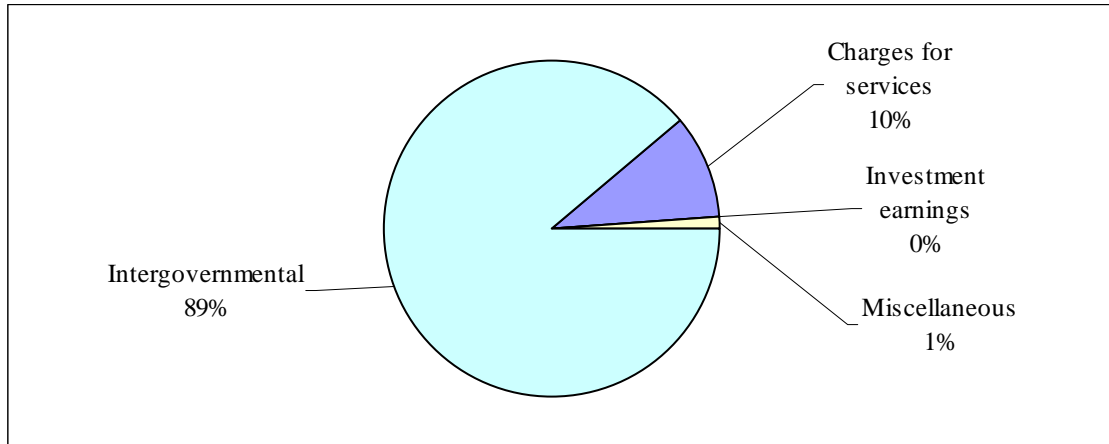
|                 |                               |                             |
|-----------------|-------------------------------|-----------------------------|
|                 | <u>2011</u>                   |                             |
|                 | <u>Total Cost of Services</u> | <u>Net Cost of Services</u> |
| Human services  | \$ 11,081,255                 | \$ 4,724,825                |
| Health services | <u>2,205,359</u>              | <u>580,644</u>              |
| Totals          | <u>\$ 13,286,614</u>          | <u>\$ 5,305,469</u>         |

## FINANCIAL STATEMENT ANALYSIS OF THE GOVERNMENTAL FUNDS

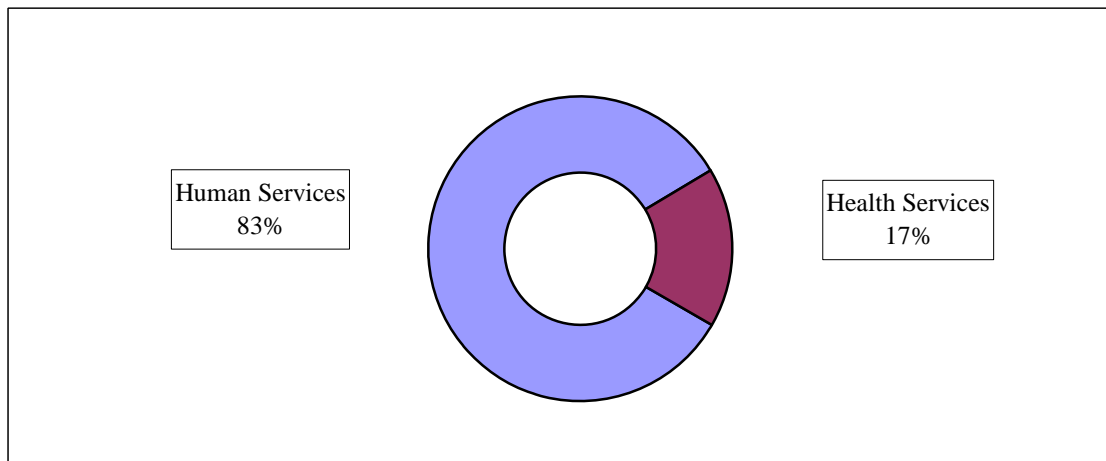
### Governmental Funds

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.

**Revenue - 2011**  
**\$13,000,557**



**Expenses - 2011**  
**\$13,286,614**



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.

| <u>Revenues</u>      | <u>Amount</u>        |
|----------------------|----------------------|
| General Fund         |                      |
| Intergovernmental    | \$ 9,927,410         |
| Charges for services | 683,704              |
| Investment earnings  | 783                  |
| Miscellaneous        | <u>380,201</u>       |
| Total Revenues       | <u>\$ 10,992,098</u> |

| <u>Revenues</u>                      | <u>Amount</u>       |
|--------------------------------------|---------------------|
| Health Services Special Revenue Fund |                     |
| Intergovernmental                    | \$ 1,652,412        |
| Charges for services                 | 303,502             |
| Investment earnings                  | 11,935              |
| Miscellaneous                        | <u>40,610</u>       |
| Total Revenues                       | <u>\$ 2,008,459</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 \$42,588, but budgeted expenditures exceeded actual expenditures by \$153,833. Overall, the total difference was an overage of \$111,245. The overage was primarily in the area of legal and collection expenses in order to settle a labor lawsuit and the purchase of a new phone system.

### **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, 2011, is \$254,503 (net of accumulated depreciation). This investment in capital assets includes office furniture and equipment and automotive equipment. In 2011, the Health and Human Services purchased two automobiles and a new phone system. 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, 2011.

|                                       |                   |
|---------------------------------------|-------------------|
| Office furniture and equipment        | \$ 174,973        |
| Automotive equipment                  | <u>79,530</u>     |
| Total Capital Assets Depreciated, Net | <u>\$ 254,503</u> |

## Long-Term Debt

The Health and Human Services has outstanding debt at December 31, 2011, of \$954,659. The outstanding debt is related to compensated absences and other postemployment benefits.

### Governmental Activities Long-Term Liabilities

|                               |    |                       |
|-------------------------------|----|-----------------------|
| Compensated absences          | \$ | 365,532               |
| Other postemployment benefits |    | <u>589,127</u>        |
| Total                         | \$ | <u><u>954,659</u></u> |

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

Southwest Health and Human Services planned a balanced budget for 2011. SWHHS' government financing (county levy) has no predicate as a new organization, although the previous tax levy from the contributing counties, including Rock County added into SWHHS for 2011, was a net total increase of 0 percent for local human services financing. The final expenditures for Southwest Health and Human Services varied because of a variety of factors associated with a legal action taken against the agency beginning in late 2010. Specific items contributing to this variation for expenditures were attorney costs exceeding \$100,000 and wage and settlement costs of litigation, which were unknown at the time of budget finalization for 2011.

For 2011, services were very consistent with budget expectations but varied with additional costs for infrastructure projects, including the purchase of a new telephone system in the Lyon County offices for SWHHS. The latest biennial funding for the Health and Human Services was reduced as a result of the 2011 legislative session, but not to the degree that it was primary during the fiscal year. Of significant concern was the State of Minnesota shutdown; although post-shutdown examination showed a delay in earned revenue but not a significant loss in total.

Currently underway is the consideration of a new partner agency for Southwest Health and Human Services, which will likely change the operational and financial conditions for the newly-formed organization. Planning for 2012 includes addressing a variety of new elements for operations, particularly the agency's Information Technology and Accounting Department that will be key to SWHHS increasing its service capacity and financial security in the future.

## 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 contacting Christopher J. Sorensen, Director of Southwest Health and Human Services, 607 West Main Street, Suite 100, Marshall, Minnesota 56258.

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## **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 ASSETS  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2011**

**Assets**

|   |                            |
|---|----------------------------|
| Cash and pooled investments                   | \$ 4,411,073               |
| Receivables - net                             | 1,295,588                  |
| Capital assets                                |                            |
| Depreciable - net of accumulated depreciation | <u>254,503</u>             |
| <b>Total Assets</b>                           | <b><u>\$ 5,961,164</u></b> |

**Liabilities**

|  |                            |
|--|----------------------------|
| Accounts payable and other current liabilities | \$ 685,458                 |
| Unearned revenue                               | 73,350                     |
| Long-term liabilities                          |                            |
| Due within one year                            | 55,086                     |
| Due in more than one year                      | <u>899,573</u>             |
| <b>Total Liabilities</b>                       | <b><u>\$ 1,713,467</u></b> |

**Net Assets**

|                            |                            |
|----------------------------|----------------------------|
| Invested in capital assets | \$ 254,503                 |
| Unrestricted               | <u>3,993,194</u>           |
| <b>Total Net Assets</b>    | <b><u>\$ 4,247,697</u></b> |

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

*EXHIBIT 2*

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

|  | <b>Expenses</b>      | <b>Program Revenues</b>                        |   | <b>Net (Expense)<br/>Revenue and<br/>Changes in<br/>Net Assets</b> |
|--|----------------------|--|---|--|
|  |                      | <b>Fees, Charges,<br/>Fines, and<br/>Other</b> | <b>Operating<br/>Grants and<br/>Contributions</b> |  |
| <b><u>Functions/Programs</u></b>                             |                      |  |   |  |
| <b>Governmental activities</b>                               |                      |  |   |  |
| Human services   | \$ 11,081,255        | \$ 992,455                                     | \$ 5,363,975                                      | \$ (4,724,825)   |
| Health services  | 2,205,359            | 344,112  | 1,280,603   | (580,644)  |
| <b>Total Governmental<br/>Activities</b>                     | <b>\$ 13,286,614</b> | <b>\$ 1,336,567</b>                            | <b>\$ 6,644,578</b>                               | <b>\$ (5,305,469)</b>  |
| <b>General Revenues</b>                                      |                      |  |   |  |
| Grants and contributions not restricted to specific programs |                      |  |   | \$ 4,935,244   |
| Unrestricted investment earnings                             |                      |  |   | 12,718   |
| Miscellaneous  |                      |  |   | 71,450   |
| <b>Total general revenues</b>                                |                      |  |   | <b>\$ 5,019,412</b>  |
| <b>Change in net assets</b>                                  |                      |  |   | <b>\$ (286,057)</b>  |
| <b>Net Assets - Beginning (Note 1.E.)</b>                    |                      |  |   | <b>4,533,754</b>   |
| <b>Net Assets - Ending</b>                                   |                      |  |   | <b>\$ 4,247,697</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, 2011**

|   | <b>General</b>      | <b>Health<br/>Services</b> | <b>Total</b>        |
|---|---------------------|----------------------------|---------------------|
| <b><u>Assets</u></b>                            |                     |                            |                     |
| Cash and pooled investments                     | \$ 3,299,891        | \$ 1,111,182               | \$ 4,411,073        |
| Accounts receivable                             | 78,152              | 6,643                      | 84,795              |
| Accrued interest receivable                     | 44                  | 351                        | 395                 |
| Due from other governments                      | 1,056,278           | 154,120                    | 1,210,398           |
| <b>Total Assets</b>                             | <b>\$ 4,434,365</b> | <b>\$ 1,272,296</b>        | <b>\$ 5,706,661</b> |
| <br><b><u>Liabilities and Fund Balances</u></b> |                     |                            |                     |
| <b>Liabilities</b>                              |                     |                            |                     |
| Accounts payable                                | \$ 334,317          | \$ 23,908                  | \$ 358,225          |
| Salaries payable                                | 192,242             | 50,588                     | 242,830             |
| Due to other governments                        | 83,831              | 572                        | 84,403              |
| Deferred revenue - unearned                     | -                   | 73,350                     | 73,350              |
| <b>Total Liabilities</b>                        | <b>\$ 610,390</b>   | <b>\$ 148,418</b>          | <b>\$ 758,808</b>   |
| <b>Fund Balances</b>                            |                     |                            |                     |
| Assigned for health services                    | \$ -                | \$ 1,123,878               | \$ 1,123,878        |
| Unassigned                                      | 3,823,975           | -                          | 3,823,975           |
| <b>Total Fund Balances</b>                      | <b>\$ 3,823,975</b> | <b>\$ 1,123,878</b>        | <b>\$ 4,947,853</b> |
| <b>Total Liabilities and Fund Balances</b>      | <b>\$ 4,434,365</b> | <b>\$ 1,272,296</b>        | <b>\$ 5,706,661</b> |

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

***EXHIBIT 4***

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2011**

|  |                            |
|--|----------------------------|
| <b>Fund balance - total governmental funds (Exhibit 3)</b>   | <b>\$ 4,947,853</b>        |
| Amounts reported for governmental activities in the statement of net assets are different because:   |                            |
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | 254,503                    |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.  |                            |
| Compensated absences   | \$ (365,532)               |
| Net OPEB obligation  | (589,127)                  |
|  | <u>(954,659)</u>           |
| <b>Net Assets of Governmental Activities (Exhibit 1)</b>   | <b><u>\$ 4,247,697</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, 2011**

|  | <u>General</u>       | <u>Health<br/>Services</u> | <u>Total</u>         |
|--|----------------------|----------------------------|----------------------|
| <b>Revenues</b>                                  |                      |                            |                      |
| Intergovernmental                                | \$ 9,927,410         | \$ 1,652,412               | \$ 11,579,822        |
| Charges for services                             | 683,704              | 303,502                    | 987,206              |
| Investment earnings                              | 783                  | 11,935                     | 12,718               |
| Miscellaneous                                    | 380,201              | 40,610                     | 420,811              |
|  | <u>\$ 10,992,098</u> | <u>\$ 2,008,459</u>        | <u>\$ 13,000,557</u> |
| <b>Expenditures</b>                              |                      |                            |                      |
| <b>Current</b>                                   |                      |                            |                      |
| Human services                                   | \$ 11,103,343        | \$ -                       | \$ 11,103,343        |
| Health services                                  | -                    | 2,218,897                  | 2,218,897            |
|  | <u>\$ 11,103,343</u> | <u>\$ 2,218,897</u>        | <u>\$ 13,322,240</u> |
| <b>Net Change in Fund Balance</b>                | <u>\$ (111,245)</u>  | <u>\$ (210,438)</u>        | <u>\$ (321,683)</u>  |
| Fund Balance - January 1, as previously reported | \$ 3,563,357         | \$ 1,345,403               | \$ 4,908,760         |
| Restatement (Note 1.E.)                          | 371,863              | (11,087)                   | 360,776              |
|  | <u>\$ 3,935,220</u>  | <u>\$ 1,334,316</u>        | <u>\$ 5,269,536</u>  |
| <b>Fund Balance - January 1, as restated</b>     | <u>\$ 3,935,220</u>  | <u>\$ 1,334,316</u>        | <u>\$ 5,269,536</u>  |
| <b>Fund Balance - December 31</b>                | <u>\$ 3,823,975</u>  | <u>\$ 1,123,878</u>        | <u>\$ 4,947,853</u>  |

**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, 2011**

**Net change in fund balance - total governmental funds (Exhibit 5) \$ (321,683)**

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 | \$ 152,869      |         |
| Current year depreciation               | <u>(44,196)</u> | 108,673 |

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   | \$ 199,067       |                 |
| Expenditures recognized at the fund level in the prior year for compensated absences | (116,082)        |                 |
| Change in net OPEB liability   | <u>(156,032)</u> | <u>(73,047)</u> |

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ (286,057)**

**FIDUCIARY FUNDS**

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

*EXHIBIT 7*

**STATEMENT OF FIDUCIARY NET ASSETS  
AGENCY FUND  
DECEMBER 31, 2011**

**Assets**

|                             |                  |
|-----------------------------|------------------|
| Cash and pooled investments | <u>\$ 43,122</u> |
|-----------------------------|------------------|

**Liabilities**

|                          |                  |
|--------------------------|------------------|
| Due to other governments | <u>\$ 43,122</u> |
|--------------------------|------------------|

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

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011**

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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, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by 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. Participating counties terminated 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 both LLMHS and LLMPPHS continued to exist after dissolution to conclude the affairs of the agencies. 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. Local financing is provided by the three member counties (Lincoln, Lyon, and Murray) of human services and by the four member counties (Lincoln, Lyon, Murray, and Pipestone) of public health. Local financing for the first year of operations was based on the 2010 contribution amounts of LLMHS and LLMPPHS. 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.

**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 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 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 a joint venture which is described in Note 5.B.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about 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 assets, 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 assets are reported in three parts: (1) invested in capital assets, (2) restricted net assets, and (3) unrestricted net assets. The Health and Human Services first utilizes restricted resources to finance qualifying activities.

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

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the Health and Human Services' governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions 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.

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

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

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the Health and Human Services reports the following fund 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.

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.

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

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1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Deposits and investments are reported at their fair value at December 31, 2011, 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 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). Therefore, the fair value of Southwest Health and Human Services' position in the pool is the same as the value of the pool shares.

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 Assets 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 assets. 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 Assets or Equity (Continued)

7. Classification of Net Assets

Net assets in the government-wide financial statements are classified in the following categories:

Invested in capital assets, net of related debt - net assets representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net assets - net assets 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 assets - net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

8. Classification of Fund Balances

In 2011, the Health and Human Services implemented the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement requires retroactive restatement of fund balance for the reclassifications made to conform to this statement. 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 - the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or 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.

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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

8. Classification of Fund Balances (Continued)

Restricted - fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed - the committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or 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 (ordinance or resolution) it employed to previously commit those amounts.

Assigned - the assigned fund balance classification includes amounts that the Health and Human Services intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or any individual who has been delegated that authority by Board resolution.

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

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.

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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

8. Classification of Fund Balances (Continued)

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 operating expenditures.

9. 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.

E. Restatement of Beginning Balances

In June 2010, Lincoln, Lyon, Murray, and Pipestone Counties approved a joint powers agreement creating Southwest Health and Human Services (SWHHS) as of January 1, 2011, and 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.

Prior to January 1, 2011, LLMPPHS was reported as a proprietary fund. An adjustment to LLMPPHS' December 31, 2010 fund balance was necessary to report the Health Services Fund as a special revenue fund as of December 31, 2011.

At December 31, 2010, LLMHS and LLMPPHS reported compensated absences as a fund liability. A restatement to fund balance was necessary to correct reporting of 2011 expenditures and fund balance.

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

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1. Summary of Significant Accounting Policies

E. Restatement of Beginning Balances (Continued)

|  |              |
|--|--------------|
| December 31, 2010 - LLMHS Fund Balance                                     | \$ 3,563,357 |
| Add: Restatement of fund balance due to compensated absences adjustment    | 371,863      |
| January 1, 2011 - SWHHS Fund Balance, General Fund                         | \$ 3,935,220 |
| December 31, 2010 - LLMPPHS Net Assets                                     | \$ 1,278,512 |
| Add: Compensated absences liability at December 31, 2010                   | 87,741       |
| Less: Capital assets, net of accumulated depreciation at December 31, 2010 | (20,850)     |
| December 31, 2010 - LLMPPHS Fund Balance                                   | \$ 1,345,403 |
| Less: Restatement of fund balance due to compensated absences adjustment   | (11,087)     |
| January 1, 2011 - SWHHS Fund Balance, Health Services Fund                 | \$ 1,334,316 |
| December 31, 2010 - LLMHS Net Assets                                       | \$ 3,255,242 |
| December 31, 2010 - LLMPPHS Net Assets                                     | 1,278,512    |
| January 1, 2011 - SWHHS Net Assets   | \$ 4,533,754 |

F. Potential Impact of New Accounting Standards on Current Period Financial Statements

The GASB has approved GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Application of GASB Statement 63 may restate portions of these financial statements.

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

**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)

bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day not covered by insurance or bonds.

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Health 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, 2011, 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;

**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)

- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries 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.

**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)

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.

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, 2011, 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.

**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

Concentration of Credit Risk (Continued)

At December 31, 2011, Southwest Health and Human Services had the following deposits and investments.

|                            |    |           |
|----------------------------|----|-----------|
| Checking account           | \$ | 2,952,215 |
| Certificates of deposit    |    | 600,000   |
| MAGIC Fund                 |    | 901,980   |
| Total Cash and Investments | \$ | 4,454,195 |

As reported in the financial statements:

|                             |    |           |
|-----------------------------|----|-----------|
| Governmental activities     |    |           |
| Cash and pooled investments | \$ | 4,411,073 |
| Agency Fund                 |    |           |
| Cash and pooled investments |    | 43,122    |
| Total                       | \$ | 4,454,195 |

2. Receivables

Receivables as of December 31, 2011, for the Health and Human Services' governmental activities are as follows:

|                               | Total<br>Receivables | Amounts Not<br>Scheduled for<br>Collection During the<br>Subsequent Year |
|-------------------------------|----------------------|--|
| Governmental Activities       |                      |  |
| Accounts receivable           | \$ 84,795            | \$ -   |
| Interest                      | 395                  | -  |
| Due from other governments    | 1,210,398            | -  |
| Total Governmental Activities | \$ 1,295,588         | \$ -   |



**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, 2011, was as follows:

|                                       | Beginning<br>Balance* | Increase          | Decrease          | Ending<br>Balance |
|---------------------------------------|-----------------------|-------------------|-------------------|-------------------|
| Capital assets depreciated            |                       |                   |                   |                   |
| Office furniture and equipment        | \$ 284,667            | \$ 133,531        | \$ 87,251         | \$ 330,947        |
| Automotive equipment                  | 287,469               | 19,338            | 22,152            | 284,655           |
| Total capital assets depreciated      | <u>\$ 572,136</u>     | <u>\$ 152,869</u> | <u>\$ 109,403</u> | <u>\$ 615,602</u> |
| Less: accumulated depreciation for    |                       |                   |                   |                   |
| Office furniture and equipment        | \$ 216,008            | \$ 27,217         | \$ 87,251         | \$ 155,974        |
| Automotive equipment                  | 210,298               | 16,979            | 22,152            | 205,125           |
| Total accumulated depreciation        | <u>\$ 426,306</u>     | <u>\$ 44,196</u>  | <u>\$ 109,403</u> | <u>\$ 361,099</u> |
| Total Capital Assets Depreciated, Net | <u>\$ 145,830</u>     | <u>\$ 108,673</u> | <u>\$ -</u>       | <u>\$ 254,503</u> |

\*The beginning balance consists of December 31, 2010, capital asset balances of the former LLMHS and LLMPPHS.

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

|  |                  |
|--|------------------|
| Governmental Activities                              |                  |
| Human services                                       | \$ 36,283        |
| Health services                                      | 7,913            |
| Total Depreciation Expense - Governmental Activities | <u>\$ 44,196</u> |

B. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

|                          |                   |
|--------------------------|-------------------|
| Accounts payable         | \$ 358,225        |
| Salaries payable         | 242,830           |
| Due to other governments | 84,403            |
| Total Payables           | <u>\$ 685,458</u> |

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

2. Detailed Notes on All Funds

B. Liabilities (Continued)

2. Long-Term Debt

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

|  | Beginning<br>Balance* | Additions         | Reductions        | Ending<br>Balance | Due Within<br>One Year |
|--|-----------------------|-------------------|-------------------|-------------------|------------------------|
| Compensated absences                             | \$ 564,599            | \$ -              | \$ 199,067        | \$ 365,532        | \$ 55,086              |
| Other postemployment<br>benefits (See Note 3.B.) | 433,095               | 221,703           | 55,671            | 589,127           | -                      |
| Total  | <u>\$ 997,694</u>     | <u>\$ 221,703</u> | <u>\$ 254,738</u> | <u>\$ 954,659</u> | <u>\$ 55,086</u>       |

\*The beginning balance consists of December 31, 2010, long-term liabilities balances of the former LLMHS and LLMPPHS.

3. Pension Plans

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.

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

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3. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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.

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.

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

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3. Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. 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.

Southwest Health and Human Services is required to contribute the following percentages of annual covered payroll in 2011:

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

Southwest Health and Human Services' contributions for the year ending December 31, 2011, for the General Employees Retirement Fund were \$324,878.

In the future, a three-year average will be provided. The 2011 contributions are equal to the contractually required contribution rates as set by state statute.

B. Other Postemployment Benefits (OPEB)

In a prior year, the former LLMHS implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The net OPEB obligation of LLMHS became a liability of Southwest Health and Human Services at its creation. Only one year of actuarial data is presented, as 2011 was the first year an actuarial valuation was performed on Southwest Health and Human Services instead of individually upon each of the former agencies.

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

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3. Pension Plans

B. Other Postemployment Benefits (OPEB) (Continued)

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. Retiring employees who were hired prior to August 22, 2005, at LLMHS and who worked for LLMHS for at least 15 years and are receiving a disability benefit or are PERA eligible, are entitled to receive four percent per year of service toward the employee's health and dental insurance premium. This amount is not to exceed 100 percent and is not to exceed the 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, 2011, there were approximately six retirees receiving health benefits from the Health and Human Services' health plan. The implicit rate subsidy amount was determined by an actuary study to be \$32,988 for 2011.

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.

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

3. Pension Plans

B. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

|  |    |                 |
|--|----|-----------------|
| ARC                                      | \$ | 218,827         |
| Interest on net OPEB obligation          |    | 19,975          |
| Adjustment to ARC                        |    | <u>(27,099)</u> |
| Annual OPEB cost (expense)               | \$ | 211,703         |
| Contributions made                       |    | <u>(55,671)</u> |
| Increase in net OPEB obligation          | \$ | 156,032         |
| Net OPEB Obligation - Beginning of Year* |    | <u>433,095</u>  |
| Net OPEB Obligation - End of Year        | \$ | <u>589,127</u>  |

\*The beginning balance consists of the December 31, 2010, net OPEB obligation of the former LLMHS.

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 year ended December 31, 2011, was as follows:

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Employer Contribution</u> | <u>Percentage Contributed</u> | <u>Net OPEB Obligation</u> |
|--------------------------|-------------------------|------------------------------|-------------------------------|----------------------------|
| December 31, 2011        | \$ 211,703              | \$ 55,671                    | 26.3%                         | \$ 589,127                 |

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was 0.0 percent funded. 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.

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

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3. Pension Plans

B. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

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.

Actuarial Methods and Assumptions

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).

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, 2011, was 26 years.

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

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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 \$450,000 per claim in 2011 and \$460,000 in 2012. 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.

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.



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

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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.

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

B. Joint Venture

Southwestern Minnesota Adult Mental Health Consortium

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 under the authority of Minn. Stat. § 471.59. The Consortium is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host. The Consortium takes actions and enters into such agreements as may be necessary to plan and develop, within the Consortium'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  
MARSHALL, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

B. Joint Venture

Southwestern Minnesota Adult Mental Health Consortium (Continued)

The following is a summary of the Consortium's annual financial report for the year ended December 31, 2009 (the most recent information available):

|                            |    |           |
|----------------------------|----|-----------|
| Total assets               | \$ | 2,304,308 |
| Total liabilities          |    | 327,637   |
| Total net assets           |    | 1,976,671 |
| Total revenues             |    | 4,271,686 |
| Total expenses             |    | 4,327,451 |
| Net decrease to net assets |    | 55,765    |

The Consortium reported no long-term obligations at December 31, 2009.

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium 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.

C. Subsequent Event

In 2011, Rock County successfully petitioned to join Southwest Health and Human Services. Rock County's health and human services functions were assumed by Southwest Health and Human Services as of January 1, 2012. 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.

**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, 2011**

|   | <u>Budgeted Amounts</u> |                      | <u>Actual<br/>Amounts</u> | <u>Variance with<br/>Final Budget</u> |
|---|-------------------------|----------------------|---------------------------|---------------------------------------|
|   | <u>Original</u>         | <u>Final</u>         |                           |                                       |
| <b>Revenues</b>   |                         |                      |                           |                                       |
| Intergovernmental   | \$ 9,862,960            | \$ 9,862,960         | \$ 9,927,410              | \$ 64,450                             |
| Charges for services  | 578,900                 | 578,900              | 683,704                   | 104,804                               |
| Investment earnings   | 2,000                   | 2,000                | 783                       | (1,217)                               |
| Miscellaneous   | 505,650                 | 505,650              | 380,201                   | (125,449)                             |
| <b>Total Revenues</b>   | <b>\$ 10,949,510</b>    | <b>\$ 10,949,510</b> | <b>\$ 10,992,098</b>      | <b>\$ 42,588</b>                      |
| <b>Expenditures</b>   |                         |                      |                           |                                       |
| <b>Current</b>  |                         |                      |                           |                                       |
| <b>Human services</b>   |                         |                      |                           |                                       |
| Administrative  | \$ -                    | \$ -                 | \$ 8,110                  | \$ (8,110)                            |
| Income maintenance  | 3,231,562               | 3,231,562            | 3,244,278                 | (12,716)                              |
| Social services   | 7,462,961               | 7,462,961            | 7,543,799                 | (80,838)                              |
| Information systems   | 254,987                 | 254,987              | 307,156                   | (52,169)                              |
| <b>Total Expenditures</b>   | <b>\$ 10,949,510</b>    | <b>\$ 10,949,510</b> | <b>\$ 11,103,343</b>      | <b>\$ (153,833)</b>                   |
| <b>Net Change in Fund Balance</b>   | <b>\$ -</b>             | <b>\$ -</b>          | <b>\$ (111,245)</b>       | <b>\$ (111,245)</b>                   |
| Fund Balance - January 1, as previously reported as Lincoln, Lyon, & Murray |                         |                      |                           |                                       |
| Human Services  | \$ 3,563,357            | \$ 3,563,357         | \$ 3,563,357              | \$ -                                  |
| Restatement (Note 1.E.)   | 371,863                 | 371,863              | 371,863                   | -                                     |
| <b>Fund Balance - January 1, as restated</b>                                | <b>\$ 3,935,220</b>     | <b>\$ 3,935,220</b>  | <b>\$ 3,935,220</b>       | <b>\$ -</b>                           |
| <b>Fund Balance - December 31</b>   | <b>\$ 3,935,220</b>     | <b>\$ 3,935,220</b>  | <b>\$ 3,823,975</b>       | <b>\$ (111,245)</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, 2011**

|  | <u>Budgeted Amounts</u> |                     | <u>Actual<br/>Amounts</u> | <u>Variance with<br/>Final Budget</u> |
|--|-------------------------|---------------------|---------------------------|---------------------------------------|
|  | <u>Original</u>         | <u>Final</u>        |                           |                                       |
| <b>Revenues</b>  |                         |                     |                           |                                       |
| Intergovernmental  | \$ 1,436,167            | \$ 1,436,167        | \$ 1,652,412              | \$ 216,245                            |
| Charges for services   | 442,750                 | 442,750             | 303,502                   | (139,248)                             |
| Investment earnings  | 8,000                   | 8,000               | 11,935                    | 3,935                                 |
| Miscellaneous  | 9,500                   | 9,500               | 40,610                    | 31,110                                |
| <b>Total Revenues</b>  | <b>\$ 1,896,417</b>     | <b>\$ 1,896,417</b> | <b>\$ 2,008,459</b>       | <b>\$ 112,042</b>                     |
| <b>Expenditures</b>  |                         |                     |                           |                                       |
| <b>Current</b>   |                         |                     |                           |                                       |
| <b>Health services</b>   |                         |                     |                           |                                       |
| Administration   | \$ 288,419              | \$ 288,419          | \$ 425,266                | \$ (136,847)                          |
| Nursing services   | 1,012,370               | 1,012,370           | 1,009,632                 | 2,738                                 |
| Health education   | 448,877                 | 448,877             | 636,363                   | (187,486)                             |
| Environmental health   | 146,751                 | 146,751             | 147,636                   | (885)                                 |
| <b>Total Expenditures</b>  | <b>\$ 1,896,417</b>     | <b>\$ 1,896,417</b> | <b>\$ 2,218,897</b>       | <b>\$ (322,480)</b>                   |
| <b>Net Change in Fund Balance</b>  | <b>\$ -</b>             | <b>\$ -</b>         | <b>\$ (210,438)</b>       | <b>\$ (210,438)</b>                   |
| Fund Balance - January 1, as previously reported as Lincoln, Lyon, Murray, and Pipestone Public Health Services as converted to fund balance | \$ 1,345,403            | \$ 1,345,403        | \$ 1,345,403              | \$ -                                  |
| Restatement (Note 1.E.)  | (11,087)                | (11,087)            | (11,087)                  | -                                     |
| <b>Fund Balance - January 1, as restated</b>   | <b>\$ 1,334,316</b>     | <b>\$ 1,334,316</b> | <b>\$ 1,334,316</b>       | <b>\$ -</b>                           |
| <b>Fund Balance - December 31</b>  | <b>\$ 1,334,316</b>     | <b>\$ 1,334,316</b> | <b>\$ 1,123,878</b>       | <b>\$ (210,438)</b>                   |

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

**EXHIBIT A-3**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2011**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) | Unfunded<br>Actuarial<br>Accrued<br>Liability<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((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, 2011**

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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 2011.

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

| <u>Fund</u>                          | <u>Expenditures</u> | <u>Budget</u> | <u>Excess</u> |
|--------------------------------------|---------------------|---------------|---------------|
| General Fund                         | \$ 11,103,343       | \$ 10,949,510 | \$ 153,833    |
| Health Services Special Revenue Fund | 2,218,897           | 1,896,417     | 322,480       |

5. Other Postemployment Benefits Funded Status

Since the Health and Human Services has no irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets is zero. Currently, only one actuarial valuation is available. Future reports will provide additional trend analysis to meet the three valuation funding status requirement as the information becomes available.

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**SUPPLEMENTARY INFORMATION**

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

AGENCY FUND

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

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

*EXHIBIT B-1*

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
COLLABORATIVE AGENCY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

|                             | <b>Balance<br/>January 1*</b> | <b>Additions</b> | <b>Deductions</b> | <b>Balance<br/>December 31</b> |
|-----------------------------|-------------------------------|------------------|-------------------|--------------------------------|
| <b><u>Assets</u></b>        |                               |                  |                   |                                |
| Cash and pooled investments | <u>\$ 26,432</u>              | <u>\$ 90,589</u> | <u>\$ 73,899</u>  | <u>\$ 43,122</u>               |
| <b><u>Liabilities</u></b>   |                               |                  |                   |                                |
| Due to other governments    | <u>\$ 26,432</u>              | <u>\$ 90,589</u> | <u>\$ 73,899</u>  | <u>\$ 43,122</u>               |

\*The January 1 balance consists of the December 31, 2010, Collaborative Agency Fund balance of the former Lincoln, Lyon, & Murray Human Services.

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## **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, 2011**

|  |                             |
|--|-----------------------------|
| <b>Shared Revenue</b>                  |                             |
| Contributions from counties            | <u>\$ 4,935,244</u>         |
| <b>Reimbursement for Services</b>      |                             |
| <b>State</b>                           |                             |
| Minnesota Department of Human Services | <u>\$ 1,001,695</u>         |
| <b>Grants</b>                          |                             |
| <b>State</b>                           |                             |
| Minnesota Department of Health         | \$ 615,187                  |
| Human Services                         | <u>1,833,837</u>            |
| <b>Total state</b>                     | <u>\$ 2,449,024</u>         |
| <b>Federal</b>                         |                             |
| Department of Agriculture              | \$ 575,435                  |
| Education                              | 14,121                      |
| Health and Human Services              | <u>2,604,303</u>            |
| <b>Total federal</b>                   | <u>\$ 3,193,859</u>         |
| <b>Total state and federal grants</b>  | <u>\$ 5,642,883</u>         |
| <b>Total Intergovernmental Revenue</b> | <u><u>\$ 11,579,822</u></u> |

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

**EXHIBIT C-2**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

| <b>Federal Grantor<br/>Pass-Through Agency<br/>Grant Program Title</b>  | <b>Federal<br/>CFDA<br/>Number</b> | <b>Expenditures</b> |
|---|------------------------------------|---------------------|
| <b>U.S. Department of Agriculture</b>   |                                    |                     |
| Passed Through Minnesota Department of Health<br>Special Supplemental Nutrition Program for Women, Infants, and Children                        | 10.557                             | \$ 322,976          |
| Passed Through Minnesota Department of Human Services<br>State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561                             | <u>252,459</u>      |
| <b>Total U.S. Department of Agriculture</b>   |                                    | <b>\$ 575,435</b>   |
| <b>U.S. Department of Education</b>   |                                    |                     |
| Passed Through Marshall Independent School District No. 413<br>Special Education - Grants for Infants and Families                              | 84.181                             | \$ 10,121           |
| Passed Through Southwest/West Central Service Cooperative<br>Special Education - Grants for Infants and Families                                | 84.181                             | <u>4,000</u>        |
| <b>Total U.S. Department of Education</b>   |                                    | <b>\$ 14,121</b>    |
| <b>U.S. Department of Health and Human Services</b>   |                                    |                     |
| Passed Through Minnesota Department of Health<br>Public Health Emergency Preparedness<br>Immunization Cluster                                   | 93.069                             | \$ 117,665          |
| Immunization  | 93.268                             | 450                 |
| ARRA - Immunization   | 93.712                             | 8,201               |
| Strengthening Public Health Infrastructure for Improved Health Outcomes   | 93.507                             | 4,500               |
| Temporary Assistance for Needy Families (TANF) Cluster<br>TANF  | 93.558                             | 34,999              |
| Maternal and Child Health Services Block Grant to the States  | 93.994                             | 71,523              |
| Passed Through Minnesota Department of Human Services<br>Promoting Safe and Stable Families   | 93.556                             | 77,377              |
| Temporary Assistance for Needy Families (TANF) Cluster<br>TANF  | 93.558                             | 195,788             |
| ARRA - Emergency Contingency Fund for TANF State Program  | 93.714                             | 14,383              |
| Child Support Enforcement   | 93.563                             | 574,786             |
| Refugee and Entrant Assistance - State-Administered Programs  | 93.566                             | 1,823               |
| Child Care and Development Block Grant Cluster<br>Child Care and Development Block Grant  | 93.575                             | 5,681               |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund  | 93.596                             | 21,095              |

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

**EXHIBIT C-2  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

| <b>Federal Grantor<br/>Pass-Through Agency<br/>Grant Program Title</b> | <b>Federal<br/>CFDA<br/>Number</b> | <b>Expenditures</b> |
|--|------------------------------------|---------------------|
| <b>U.S. Department of Health and Human Services</b>                    |                                    |                     |
| Passed Through Minnesota Department of Human Services (Continued)      |                                    |                     |
| Stephanie Tubbs Jones Child Welfare Services Program                   | 93.645                             | 5,901               |
| Foster Care - Title IV-E   | 93.658                             | 81,802              |
| Social Services Block Grant  | 93.667                             | 280,479             |
| Chafee Foster Care Independence Program                                | 93.674                             | 44,262              |
| Children's Health Insurance Program                                    | 93.767                             | 347                 |
| Medical Assistance Program   | 93.778                             | 930,269             |
| Block Grants for Community Mental Health Services                      | 93.958                             | 132,972             |
| <b>Total U.S. Department of Health and Human Services</b>              |                                    | <b>\$ 2,604,303</b> |
| <b>Total Federal Awards</b>  |                                    | <b>\$ 3,193,859</b> |

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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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 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, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Southwest Health and Human Services, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Southwest Health and Human Services.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Clusters

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

|  |    |         |
|--|----|---------|
| Immunization Cluster                                   | \$ | 8,651   |
| Temporary Assistance for Needy Families (TANF) Cluster |    | 245,170 |
| Child Care and Development Block Grant Cluster         |    | 26,776  |

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

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5. Subrecipients

During 2011, the Health and Human Services did not pass any federal money to subrecipients.

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, 2011**

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

**Financial Statements**

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

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: **Unqualified**

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,<br>Infants, and Children | CFDA #10.557 |
| 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 low-risk auditee? **No**

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

### INTERNAL CONTROL

#### ITEMS ARISING THIS YEAR

##### 11-1 Segregation of Duties

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

**Condition:** Several of the Health and Human Services' accounting functions lack proper segregation of duties.

**Context:** 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 is not possible. This is not unusual in operations the size of Southwest Health and Human Services; however, the Health and Human Services' management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

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

**Cause:** The Health and Human Services does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

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

#### Client's Response:

*Southwest Health and Human Services recognizes the inability to hire the number of staff required to achieve segregation of duties in each department. However, elected officials and management are aware of this condition and have integrated strong internal controls where possible to ensure proper policy and procedures are being implemented by staff.*

## 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. Statement on Auditing Standards 115 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 Health and Human Services' 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 significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

**Effect:** Audit adjustments were necessary to record additional payables and receivables found during the audit and make reclassification entries as necessary.

**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 that 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 so that, in future audits, this information can be prepared by the Health and Human Services.

### 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.
- It was discovered during the audit that Lyon County did not pay \$172,602 in state-aid monies due to Southwest Health and Human Services, which was not noticed by the Health and Human Services. This resulted in an additional receivable for the year ended December 31, 2011.

**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 people take in performing their duties.

**Effect:** Audit adjustments were necessary to record additional 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 claiming and billing referenced in the 2011 audit. In addition, we are reviewing all accesses and implementing additional monitoring controls to assure accurate and timely results.*

11-4 Claim Approval

**Criteria:** According to Southwest Health and Human Services' Accounting Policies and Procedures Manual, "the Director has the authority to approve purchases up to \$5,000 without Board approval."

**Condition:** During internal control testing, we noted the Director does not sign warrant registers until after vendors have been paid.

**Context:** A proper approval process helps ensure that payment is made only for valid and authorized goods and services.

**Effect:** Payments to vendors are mailed before they have been reviewed and approved by the Director or the Board.

**Cause:** The Director is not available to approve claims before they are paid.

**Recommendation:** We recommend the Health and Human Services follow approved policies and procedures and implement review and approval procedures before payments to vendors are mailed. If the Director is not available to approve claims before they are paid, we recommend the Board delegate the authority to approve claims to another individual.

Client's Response:

*Southwest Health and Human Services has corrected this process. Warrants are **not** sent out until the warrant register has been signed by the Director, Deputy Director, or Division Director.*

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

#### ITEMS ARISING THIS YEAR

##### 11-5 Eligibility Controls

**Program:** Medical Assistance Program (MA) (CFDA No. 93.778)

**Criteria:** Standard internal control procedures should include a review process for case files to ensure the intake function related to eligibility requirements are met.

**Condition:** During our testing of controls over MA case files, we noted no documented review process of case files by the program supervisor.

**Questioned Costs:** None.

**Context:** Because of the lack of review process, we increased our sample size for testing compliance. During our testing of compliance, case files in our sample were missing certain required items (see Finding 11-6 for further information).

**Effect:** The lack of periodic review of case files by program supervisors increases the risk that a client will receive benefits for which they are not eligible.

**Cause:** The Health and Human Services does not have a procedure in place to ensure that case files are reviewed.

**Recommendation:** We recommend program supervisors review a sample of case files periodically to ensure that all the required information affecting eligibility is obtained and correctly entered.

#### Corrective Action Plan:

##### Name of Contact Person Responsible for Corrective Action:

*Kathy Herding*

##### Corrective Action Planned:

*Southwest Health and Human Services will implement monthly case reviews of Medical Assistance cases at a minimum of 2 cases per worker per month.*

##### Anticipated Completion Date:

*The Medical Assistance case review process has begun as of June 1, 2012.*



## 11-6 Eligibility Testing

**Program:** Medical Assistance Program (MA) (CFDA No. 93.778)

**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.

Specific criteria are established with respect to eligibility for assistance. During our testing of the intake function related to eligibility, we noted noncompliance with the following requirements:

- Per 8 U.S.C. 1611(a), “Notwithstanding any other provision of law and except as provided in subsection (b) of this section, an alien who is not a qualified alien (as defined in section 1641 of this title) is not eligible for any Federal public benefit (as defined in subsection (c) of this section).”
- Per Minn. Stat. § 256B.056 subd. 10(c), “The commissioner shall verify assets and income for all applicants, and for all recipients upon renewal.”
- Per 42 CFR 435.907(a), “The agency must require a written application from the applicant, an authorized representative, or, if the applicant is incompetent or incapacitated, someone acting responsibly for the applicant.”

**Condition:** In some cases, documentation was not available to support that the client was eligible for benefits. Some specific instances noted in our sample of 60 cases tested are as follows:

- Three individuals who were receiving benefits did not have a birth certificate copy on record to document their U.S. citizenship.
- Five cases did not have documentation to support income, and four cases did not have verification of asset requirements.
- One application was not signed by the applicant.

**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:** Inappropriate benefits could be approved, causing an inappropriate expenditure of federal awards.

**Cause:** Program personnel entering case documentation did not ensure all required documents were 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*

Corrective Action Planned:

*Southwest Health and Human Services will implement monthly case reviews of Medical Assistance cases at a minimum of 2 cases per worker, per month. In addition, Southwest Health and Human Services will target areas of verification, documentation, and form completion.*

Anticipated Completion Date:

*The Medical Assistance case review process has begun as of June 1, 2012.*

## 11-7 Identification of Federal Awards

**Programs:** Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA No. 10.557); State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA No. 10.561); Special Education - Grants for Infants and Families (CFDA No. 84.181); Public Health Emergency Preparedness (CFDA No. 93.069); ARRA - Immunization (CFDA No. 93.712); Strengthening Public Health Infrastructure for Improved Health Outcomes (CFDA No. 93.507); Promoting Safe and Stable Families (CFDA No. 93.556); Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558); ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program (CFDA No. 93.714); Child Support Enforcement (CFDA No. 93.563); Stephanie Tubbs Jones Child Welfare Services Program (CFDA No. 93.645); Foster Care - Title IV-E (CFDA No. 93.658); Chafee Foster Care Independence Program (CFDA No. 93.674); and Medical Assistance Program (CFDA #93.778)

**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 reporting total federal expenditures for 2011 of \$3,748,596, while the SEFA after audit adjustments showed total expenditures of \$3,193,859, resulting in a difference of \$554,737.

**Questioned Costs:** None.

**Context:** In 2011, the Health and Human Services expended \$3,193,859 in federal awards; the net overstatement of federal expenditures due to improper classification and misidentification of federal awards on the SEFA provided by the Health and Human Services was \$554,737.

**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 identify, classify, and track federal awards for reporting on the SEFA or 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.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Karla Drown*

Corrective Action Planned:

*Southwest Health and Human Services will develop a system and written procedures that will allow staff to correctly identify and classify all federal financial assistance received and expended by Southwest Health and Human Services. Procedures will include determination of the correct program CFDA number, revenue source, and program name.*

Anticipated Completion Date:

*October 1, 2012*



REBECCA OTTO  
STATE AUDITOR

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

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

We have audited 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, 2011, which collectively comprise the Health and Human Services' basic financial statements, and have issued our report thereon dated July 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

Management of Southwest Health and Human Services is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Southwest Health and Human Services' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material

weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 11-1, 11-3, and 11-4 to be significant deficiencies.

#### Compliance and Other Matters

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

#### Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

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

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. We did not audit the Health and Human Services' responses and, accordingly, we express no opinion on them.

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

July 20, 2012

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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REBECCA OTTO  
STATE AUDITOR

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## **REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

### Compliance

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 its major programs for the year ended December 31, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Health and Human Services' management. Our responsibility is to express an opinion on the Health and Human Services' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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. Our audit does not provide a legal determination on the Health and Human Services' compliance with those requirements.

In our opinion, Southwest Health and Human Services complied, in all material respects, with the 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, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and are described in the accompanying Schedule of Findings and Questioned Costs as item 11-6.

### Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 11-5, 11-6, and 11-7. 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 attention by those charged with governance.

Southwest Health and Human Services' corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Health and Human Services' corrective action plans and, accordingly, we express no opinion on them.

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

July 20, 2012

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR