

STATE OF MINNESOTA

Office of the State Auditor



Julie Blaha
State Auditor

SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA

YEAR ENDED DECEMBER 31, 2018

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 100 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 600 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**

Year Ended December 31, 2018



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

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

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MARSHALL, MINNESOTA**

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

ORGANIZATION
2018

Health and Human Services Governing Board	County	Appointment Expires
Chair		
Gerald Magnus	Murray	December 31, 2018
Vice Chair		
Charlie Sanow	Lyon	December 31, 2018
Members		
Corey Sik	Lincoln	December 31, 2018
Mic VanDeVere	Lincoln	December 31, 2018
Rick Anderson	Lyon	December 31, 2018
James Jens	Murray	December 31, 2018
Les Nath	Pipestone	December 31, 2018
Dan Wildermuth	Pipestone	December 31, 2018
Jim Salfer	Redwood	December 31, 2018
Dave Forkrud	Redwood	December 31, 2018
Sherri Thompson	Rock	December 31, 2018
Greg Burger	Rock	December 31, 2018
Human Services Board		
Chair		
Les Nath	Pipestone	December 31, 2018
Vice Chair		
Corey Sik	Lincoln	December 31, 2018
Members		
Pam VanOverbeke	Lincoln	December 31, 2018
Mic VanDeVere	Lincoln	December 31, 2018
Rick Anderson	Lyon	December 31, 2018
Charlie Sanow	Lyon	December 31, 2018
Lois Schmidt	Lyon	December 31, 2018
James Jens	Murray	December 31, 2018
Jeane Anderson	Murray	December 31, 2018
Gerald Magnus	Murray	December 31, 2018
Dan Wildermuth	Pipestone	December 31, 2018
Steve Schulze	Pipestone	December 31, 2018
Jim Salfer	Redwood	December 31, 2018
Dave Forkrud	Redwood	December 31, 2018
Carol Flahaven	Redwood	December 31, 2018
Sherri Thompson	Rock	December 31, 2018
Greg Burger	Rock	December 31, 2018

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

ORGANIZATION
2018
(Continued)

Community Health Board	County	Appointment Expires
Chair		
Sherri Thompson	Rock	December 31, 2018
Vice Chair		
Jim Salfer	Redwood	December 31, 2018
Members		
Corey Sik	Lincoln	December 31, 2018
Charlie Sanow	Lyon	December 31, 2018
Rick Anderson	Lyon	December 31, 2018
Gerald Magnus	Murray	December 31, 2018
Les Nath	Pipestone	December 31, 2018
Greg Burger	Rock	December 31, 2018
Director		
Beth Wilms		Indefinite
Deputy Director		
Nancy Walker		Indefinite
Fiscal Manager		
Sarah Kirchner		Indefinite
Attorney		
William J. Toulouse		Indefinite

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JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Health and Human Services as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Health and Human Services' basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Health and Human Services' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Health and Human Services as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1.E. to the financial statements, in 2018, the Health and Human Services adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Southwest Health and Human Services' basic financial statements. The Supplementary Information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Supplementary

Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2019, on our consideration of Southwest Health and Human Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Southwest Health and Human Services' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southwest Health and Human Services' internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Health and Human Services' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA), as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 31, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(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, 2018. 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' basic financial statements that follow this section.

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.

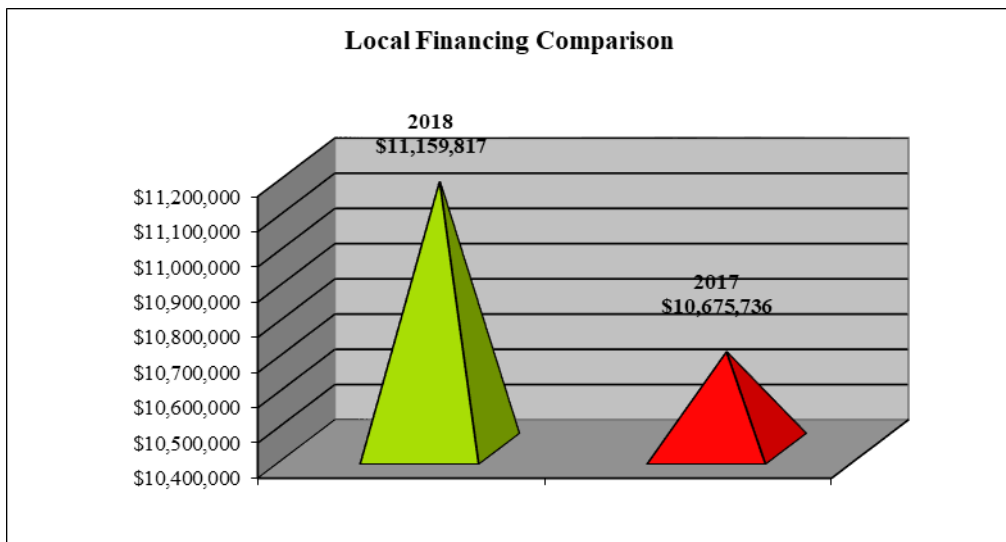
SWHHS began official operations on January 1, 2011, and performs health and human services functions formerly performed by the two previous joint ventures. SWHHS is governed by a Joint Health and Human Services Board, made up of one Commissioner (or alternate) from each county serving on the Community 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 2018, the local financing for human services was based on consideration of: (1) population based on the most recent national census, (2) tax capacity, and (3) the most recent three-year average Social Service Expenditure and Grant Reconciliation Report, each factor to be weighted equally. Public health financing for 2018 was based on \$12.25 per capita.

FINANCIAL HIGHLIGHTS

Governmental activities' total net position is (\$6,584,454), of which \$317,432 represents the net investment in capital assets (Exhibit 1). In 2018, governmental activities' total net position increased by \$200,148. Local financing for the Health and Human Services in 2018 was \$11,159,817, which comprised 41.3 percent of the total intergovernmental revenue. Total federal and state grants comprised 48.5 percent of the total intergovernmental revenue. Compensated absences totaled \$982,921, the other postemployment benefits (OPEB) liability totaled \$1,606,048, and the net pension liability totaled \$10,279,684. Comparing 2018 with 2017, the following table shows local financing costs increased from 2017 to 2018, primarily due to an increase in the levies in participating counties.

Local Financing Revenue

	<u>2018</u>	<u>2017</u>
Payments from participating counties	<u>\$ 11,159,817</u>	<u>\$ 10,675,736</u>



OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Southwest Health and Human Services' basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section), other information, a schedule of changes in total OPEB liability and related ratios, and schedules of proportionate share of net pension liability and of contributions for the pension plans are required to accompany the basic financial statements and, therefore, are included as required supplementary information. Other information is provided as supplementary information regarding Southwest Health and Human Services' intergovernmental revenue and federal award programs.

Government-Wide Financial Statements

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

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

Governmental Fund Financial Statements

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

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

Proprietary Fund Financial Statements

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

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

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 25 through 62 of this report.

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the Health and Human Services' financial position. The Health and Human Services' liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$6,584,454. The Health and Human Services' net investment in capital assets is \$317,432 of total net position. It should be noted that these assets are not available for future spending.

Governmental Activities

Comparative condensed statements of net position and activities illustrate the changes from 2017 to 2018:

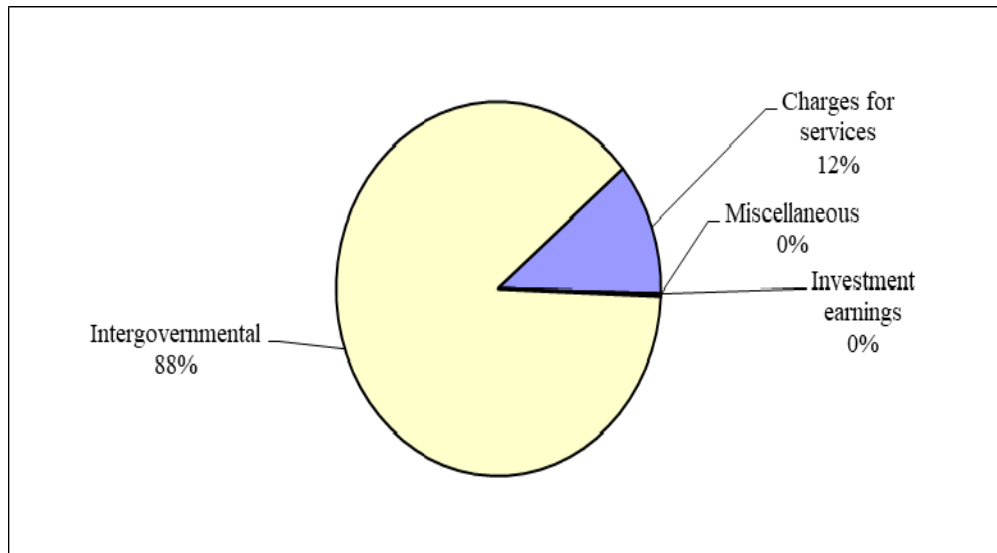
	Net Position		Percent (%) Change
	2018	2017	
Assets			
Current assets	\$ 8,731,210	\$ 8,288,790	5.3
Capital assets, net of depreciation	<u>575,586</u>	<u>744,591</u>	(22.7)
Total Assets	<u>\$ 9,306,796</u>	<u>\$ 9,033,381</u>	3.0
Deferred Outflows of Resources			
Deferred pension outflows	\$ 2,165,277	\$ 3,538,289	(38.8)
Deferred OPEB outflows	<u>81,563</u>	<u>-</u>	100.0
Total Deferred Outflows of Resources	<u>\$ 2,246,840</u>	<u>\$ 3,538,289</u>	(36.5)
Liabilities			
Current liabilities	\$ 2,380,585	\$ 2,411,262	(1.3)
Long-term liabilities	<u>13,126,807</u>	<u>14,768,206</u>	(11.1)
Total Liabilities	<u>\$ 15,507,392</u>	<u>\$ 17,179,468</u>	(9.7)
Deferred Inflows of Resources			
Deferred pension inflows	<u>\$ 2,630,698</u>	<u>\$ 2,094,532</u>	25.6
Net Position			
Net investment in capital assets	\$ 317,432	\$ 393,485	(19.3)
Unrestricted	<u>(6,901,886)</u>	<u>(7,095,815)</u>	2.7
Total Net Position, as reported	<u>\$ (6,584,454)</u>	<u>\$ (6,702,330)</u>	1.8
Change in accounting principle*		<u>(82,272)</u>	
Total Net Position, as restated		<u>\$ (6,784,602)</u>	

*The January 1, 2018, net position was decreased by \$82,272 to adopt new accounting guidance by implementing the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

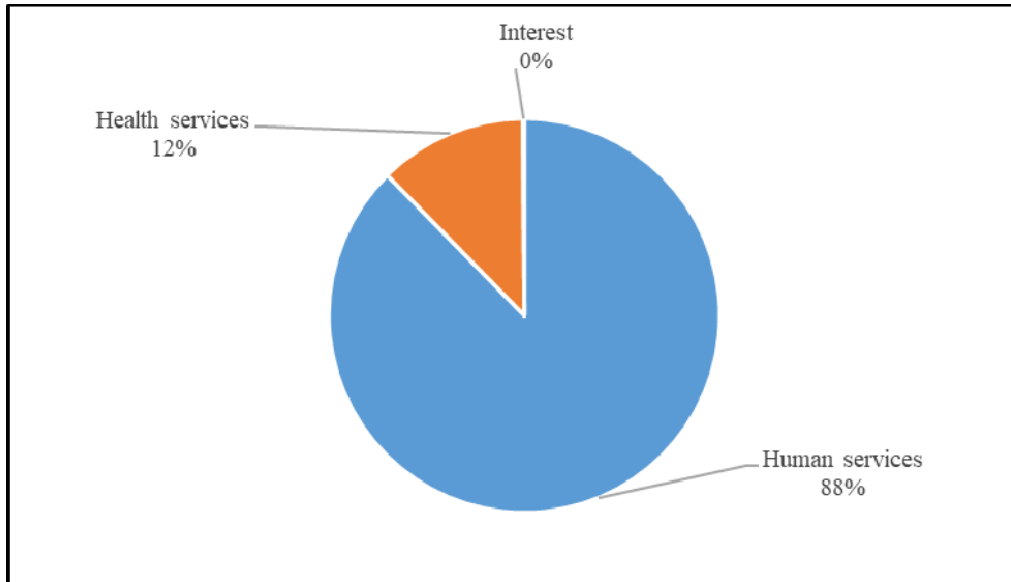
	Activities		Percent (%) Change
	2018	2017	
Revenues			
Intergovernmental	\$ 26,636,972	\$ 26,334,279	1.1
Fees and charges for services	3,460,198	3,290,258	5.2
Investment earnings	41,848	22,321	87.5
Miscellaneous	38,263	31,324	22.2
Total Revenues	\$ 30,177,281	\$ 29,678,182	1.7
Expenses			
Human services	\$ 26,267,535	\$ 27,118,593	(3.1)
Health services	3,677,265	4,044,657	(9.1)
Interest	32,333	34,269	(5.6)
Total Expenses	\$ 29,977,133	\$ 31,197,519	(3.9)
Change in Net Position	\$ 200,148	\$ (1,519,337)	113.2
Net Position – January 1, as restated	(6,784,602) *	(5,182,993)	(30.9)
Net Position – December 31, as reported	\$ (6,584,454)	\$ (6,702,330)	1.8

*Amount includes a change in accounting principles.

Revenue – 2018
\$30,177,281



Expenses – 2018
\$29,977,133



As shown in the statement of activities on Exhibit 2, the amount that was received through intergovernmental revenue was 88.3 percent of the total revenue received.

FINANCIAL STATEMENT ANALYSIS OF THE GOVERNMENTAL FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$5,453,123, an increase of \$539,818, in comparison with the prior year. All of the combined ending fund balances of \$5,453,123 represent assigned and unassigned fund balance, which is available for spending at the agency’s discretion.

The General Fund is the operating fund for the human services portion of the agency. At the end of the current fiscal year, it had an unassigned fund balance of \$3,605,569. The General Fund’s unassigned fund balance represents 13.8 percent of total General Fund expenditures. During 2018, the ending fund balance increased by \$554,379. This is primarily due to efforts related to organizational cost-savings measures, as well as strong oversight of time reporting related to earned revenues.

The Health Services Special Revenue Fund had an assigned fund balance of \$1,847,554. The ending balance decreased by \$14,561 during 2018, primarily due to information technology invoices received and paid for that were budgeted for and installed during 2017.

General Fund

<u>Revenues</u>	<u>Final Budgeted Amount</u>	<u>Actual Amount</u>
Intergovernmental	\$ 23,430,146	\$ 24,030,708
Charges for services	2,182,554	2,209,226
Investment earnings	8,400	35,153
Miscellaneous	337,650	484,246
	<hr/>	<hr/>
Total Revenues	<u>\$ 25,958,750</u>	<u>\$ 26,759,333</u>

Health Services Special Revenue Fund

<u>Revenues</u>	<u>Final Budgeted Amount</u>	<u>Actual Amount</u>
Intergovernmental	\$ 3,169,684	\$ 3,001,968
Charges for services	617,980	629,149
Investment earnings	1,600	6,695
Miscellaneous	8,900	14,721
	<hr/>	<hr/>
Total Revenues	<u>\$ 3,798,164</u>	<u>\$ 3,652,533</u>

General Fund Budgetary Highlights

Over the course of the year, the original to final budget totals stayed the same. Actual revenue was greater than budgeted revenue by \$800,583. Intergovernmental revenues exceeded the budget by \$600,562 primarily due to Minnesota Family Investment Program (MFIP) and Local Collaborative Time Study (LCTS) funding not being budgeted for. Miscellaneous revenue exceeded the budget by \$146,596, which was a result of recoveries being greater than expected. Actual expenditures exceeded budgeted expenditures by \$140,966. Expenditures exceeding the budget can be attributed to the LCTS expenditures not being budgeted for.

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, 2018, is \$575,586 (net of accumulated depreciation). This investment in capital assets includes office furniture and equipment and automotive equipment. In 2018, the Health and Human Services purchased two servers, licenses, and other IT purchases. The Health and Human Services has slowed investing in capital assets due to decreased funding and revenues.

The following table shows capital assets, net of depreciation, at December 31, 2018.

Office furniture and equipment	\$ 349,689
Automotive equipment	<u>225,897</u>
Total Capital Assets Depreciated, Net	<u>\$ 575,586</u>

Long-Term Debt

At year-end, the Health and Human Services had no outstanding bonded debt. The Health and Human Services has outstanding long-term liabilities at December 31, 2018, of \$13,126,807. The outstanding long-term liabilities are related to compensated absences, the other postemployment benefits obligation, capital leases, and the net pension liability.

Governmental Activities Long-Term Liabilities

Capital leases payable	\$ 258,154
Compensated absences	982,921
Other postemployment benefits liability	1,606,048
Net pension liability	<u>10,279,684</u>
Total	<u>\$ 13,126,807</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Southwest Health and Human Services planned a balanced budget for 2019. The levy for Human Services was approved at a seven percent increase for the General Fund. A change in the per capita levy for the Health Services Special Revenue Fund was also approved with an increase of \$0.50 per capita for all counties.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Southwest Health and Human Services' financial statements. Additional questions or further explanation of this report can be obtained by writing to Sarah Kirchner, Fiscal Manager of Southwest Health and Human Services, 607 West Main Street, Suite 200, Marshall, Minnesota 56258, or by calling 507-532-1268.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

EXHIBIT 1

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2018**

Assets

Cash and pooled investments	\$	5,875,579
Receivables – net		2,855,631
Capital assets		
Depreciable – net of accumulated depreciation		575,586
Total Assets	\$	9,306,796

Deferred Outflows of Resources

Deferred pension outflows	\$	2,165,277
Deferred other postemployment benefits outflows		81,563
Total Deferred Outflows of Resources	\$	2,246,840

Liabilities

Accounts payable and other current liabilities	\$	2,373,878
Unearned revenue		6,707
Long-term liabilities		
Due within one year		235,746
Due in more than one year		1,005,329
Other postemployment benefits liability		1,606,048
Net pension liability		10,279,684
Total Liabilities	\$	15,507,392

Deferred Inflows of Resources

Deferred pension inflows	\$	2,630,698
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Net Position

Net investment in capital assets	\$	317,432
Unrestricted		(6,901,886)
Total Net Position	\$	(6,584,454)

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

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Expenses	Program Revenues Fees, Charges, Fines, and Other	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
<u>Functions/Programs</u>				
Governmental activities				
Human services	\$ 26,267,535	\$ 2,822,450	\$ 13,331,250	\$ (10,113,835)
Health services	3,677,265	637,748	2,067,264	(972,253)
Interest	32,333	-	-	(32,333)
Total Governmental Activities	\$ 29,977,133	\$ 3,460,198	\$ 15,398,514	\$ (11,118,421)
General Revenues				
Grants and contributions not restricted to specific programs				\$ 11,238,458
Unrestricted investment earnings				41,848
Miscellaneous				38,263
Total general revenues				\$ 11,318,569
Change in net position				\$ 200,148
Net Position – Beginning, as restated (Note 1.E.)				(6,784,602)
Net Position – Ending				\$ (6,584,454)

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, 2018**

	General	Health Services	Total
<u>Assets</u>			
Cash and pooled investments	\$ 3,396,970	\$ 1,741,705	\$ 5,138,675
Accounts receivable	430,477	38,444	468,921
Accrued interest receivable	3,896	742	4,638
Advance to other governments	80,749	-	80,749
Due from other governments	1,979,319	320,046	2,299,365
Total Assets	\$ 5,891,411	\$ 2,100,937	\$ 7,992,348
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 873,734	\$ 16,178	\$ 889,912
Salaries payable	813,853	171,158	985,011
Due to other governments	334,350	3,634	337,984
Unearned revenue	-	6,707	6,707
Total Liabilities	\$ 2,021,937	\$ 197,677	\$ 2,219,614
Deferred Inflows of Resources			
Unavailable revenue	\$ 263,905	\$ 55,706	\$ 319,611
Fund Balances			
Assigned for			
Health services	\$ -	\$ 1,847,554	\$ 1,847,554
Unassigned	3,605,569	-	3,605,569
Total Fund Balances	\$ 3,605,569	\$ 1,847,554	\$ 5,453,123
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 5,891,411	\$ 2,100,937	\$ 7,992,348

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

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION—GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2018**

Fund balance – total governmental funds (Exhibit 3)	\$	5,453,123
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		575,586
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.		2,165,277
Deferred outflows of resources resulting from the other postemployment benefits liability are not available resources and, therefore, are not reported in governmental funds.		81,563
An internal service fund is used by the Health and Human Services to charge the cost of the self-funded insurance programs to functions. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.		577,891
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources—unavailable revenue in the governmental funds.		319,611
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Leases payable	\$ (258,154)	
Compensated absences	(982,921)	
Other postemployment benefits liability	(1,606,048)	
Net pension liability	<u>(10,279,684)</u>	(13,126,807)
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in governmental funds.		<u>(2,630,698)</u>
Net Position of Governmental Activities (Exhibit 1)	\$	<u>(6,584,454)</u>

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

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	General	Health Services	Total
Revenues			
Intergovernmental	\$ 24,030,708	\$ 3,001,968	\$ 27,032,676
Charges for services	2,209,226	629,149	2,838,375
Investment earnings	35,153	6,695	41,848
Miscellaneous	484,246	14,721	498,967
Total Revenues	\$ 26,759,333	\$ 3,652,533	\$ 30,411,866
Expenditures			
Current			
Human services	\$ 26,099,716	-	\$ 26,099,716
Health	-	3,647,047	3,647,047
Debt service			
Principal	87,584	16,684	104,268
Interest	27,159	5,174	32,333
Total Expenditures	\$ 26,214,459	\$ 3,668,905	\$ 29,883,364
Excess of Revenues Over (Under) Expenditures	\$ 544,874	\$ (16,372)	\$ 528,502
Other Financing Sources (Uses)			
Capital leases	9,505	1,811	11,316
Net Change in Fund Balance	\$ 554,379	\$ (14,561)	\$ 539,818
Fund Balance – January 1	3,051,190	1,862,115	4,913,305
Fund Balance – December 31	\$ 3,605,569	\$ 1,847,554	\$ 5,453,123

**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, 2018**

Net change in fund balance – total governmental funds (Exhibit 5) \$ 539,818

Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Unavailable revenue – December 31	\$ 319,611	
Unavailable revenue – January 1	<u>(575,438)</u>	(255,827)

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.

Expenditures for general capital assets	\$ 69,595	
Net book value of assets disposed	(2,518)	
Current year depreciation	<u>(236,082)</u>	(169,005)

Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Principal payments on capital leases	\$ 104,268	
Capital leases (see Note 2.B.4. for more information)	<u>(11,316)</u>	92,952

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	\$ 43,506	
Change in other postemployment benefits liability	(32,756)	
Change in deferred other postemployment benefits outflows	81,563	
Change in net pension liability	1,619,969	
Change in deferred pension outflows	(1,373,012)	
Change in deferred pension inflows	<u>(536,166)</u>	(196,896)

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

EXHIBIT 6
(Continued)

**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, 2018**

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

	<u>189,106</u>
Change in Net Position of Governmental Activities (Exhibit 2)	<u>\$ 200,148</u>

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PROPRIETARY FUND

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

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2018**

	<u>Governmental Activities Internal Service Fund</u>
<u>Assets</u>	
Current assets	
Cash and cash equivalents	\$ 736,904
Accounts receivable	1,958
	<hr/>
Total Assets	\$ 738,862
	<hr/>
<u>Liabilities</u>	
Current liabilities	
Accounts payable	\$ 558
Claims payable	160,413
	<hr/>
Total Liabilities	\$ 160,971
	<hr/>
<u>Net Position</u>	
Unrestricted	\$ 577,891
	<hr/> <hr/>

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

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Governmental Activities Internal Service Fund</u>
Operating Revenues	
Charges for services	\$ 2,642,741
Operating Expenses	
Cost of services	<u>2,453,635</u>
Operating Income (Loss)	\$ 189,106
Net Position – January 1	<u>388,785</u>
Net Position – December 31	<u><u>\$ 577,891</u></u>

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

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2018
Increase (Decrease) in Cash and Cash Equivalents**

	Governmental Activities
	Internal Service Fund
Cash Flows from Operating Activities	
Receipts from internal services provided	\$ 2,641,435
Payments to suppliers	(2,658,388)
	\$ (16,953)
Cash and Cash Equivalents at January 1	753,857
Cash and Cash Equivalents at December 31	\$ 736,904
 Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	\$ 189,106
 Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
(Increase) decrease in accounts receivable	\$ (1,922)
Increase (decrease) in accounts payable	558
Increase (decrease) in claims payable	(204,695)
	\$ (206,059)
Total adjustments	\$ (206,059)
 Net Cash Provided by (Used in) Operating Activities	\$ (16,953)

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FIDUCIARY FUNDS

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

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2018**

Assets

Cash and cash equivalents	<u><u>\$ 208,102</u></u>
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Liabilities

Due to other governments	<u><u>\$ 208,102</u></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, 2018

1. Summary of Significant Accounting Policies

Southwest Health and Human Services' financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2018. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by Southwest Health and Human Services are discussed below.

A. Financial Reporting Entity

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

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

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

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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

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

Joint Ventures and Jointly-Governed Organizations

Southwest Health and Human Services participates in joint ventures described in Note 4.B. The Health and Human Services also participates in jointly-governed organizations described in Note 4.C.

B. Basic Financial Information

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about Southwest Health and Human Services. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

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

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

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

1. Summary of Significant Accounting Policies

B. Basic Financial Information

1. Government-Wide Statements (Continued)

the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the Health and Human Services' funds, including its fiduciary funds. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of governmental and proprietary fund financial statements 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 accounted for in another fund. Southwest Health and Human Services has chosen to use the General Fund to account for human service programs and information technology. Financing comes primarily from contributions of participating counties and intergovernmental revenue provided by the state and federal governments.
- The Health Services Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as committed contributions from participating counties for community health programs.

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

- The Internal Service Fund accounts for health insurance premiums and payments.

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

1. Summary of Significant Accounting Policies

B. Basic Financial Information

2. Fund Financial Statements (Continued)

- Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the Health and Human Services holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Southwest Health and Human Services considers all revenues as available if collected within 60 days after the end of the current period. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. Charges for services and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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**

1. Summary of Significant Accounting Policies (Continued)

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

1. Cash and Cash Equivalents

Southwest Health and Human Services has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, the resources available to the Internal Service Fund are considered to be cash equivalents, since the fund can deposit or effectively withdraw cash at any time without notice or penalty.

2. Deposits and Investments

Under the direction of the Investment Committee and the Board, the cash balances of substantially all funds are invested by the Lyon County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Investment earnings for 2018 were \$41,848.

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 investment in the pool is measured at the net asset value (NAV) per share provided by the pool.

3. Receivables and Payables

Accounts receivable is shown net of an allowance for uncollectible balances.

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

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

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

1. Summary of Significant Accounting Policies

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

4. Prepaid Items

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

5. Capital Assets

Capital assets, which include office furniture, equipment, and automotive equipment, are reported by the Health and Human Services in the government-wide financial statements. Capital assets are defined by the Health and Human Services as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value (entry price) on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

6. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation, sick leave, and comp time balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. A liability for compensated absences is

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

1. Summary of Significant Accounting Policies

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

6. Compensated Absences (Continued)

reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of an amount based on a trend analysis of current usage of vacation. The noncurrent portion consists of the remaining amount of vacation, total vested sick leave, and comp time. For the governmental activities, compensated absences are liquidated by the General Fund and the Health Services Special Revenue Fund.

7. Long-Term Obligations

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

8. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association of Minnesota (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value. The net pension liability is liquidated through the General Fund and Health Services Special Revenue Fund.

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

1. Summary of Significant Accounting Policies

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

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The Health and Human Services reports deferred outflows of resources only under the full accrual basis of accounting associated with defined benefit pension plans and other postemployment benefits (OPEB) and, accordingly, they are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Health and Human Services has three types of deferred inflows. The governmental funds report unavailable revenue from grant monies receivable for amounts that are not considered available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental fund balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The Health and Human Services also reports deferred inflows of resources associated with defined benefit pension plans and OPEB. These inflows arise only under the full accrual basis of accounting and, accordingly, are only reported in the statement of net position.

10. Unearned Revenue

Proprietary funds, governmental funds, and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

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

1. Summary of Significant Accounting Policies

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

11. Classification of Net Position

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

- Net investment in capital assets – the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – the amount of net position that does not meet the definition of restricted or net investment in capital assets.

12. Classification of Fund Balances

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

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

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

1. Summary of Significant Accounting Policies

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

12. Classification of Fund Balances (Continued)

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

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

13. Minimum Fund Balance

Southwest Health and Human Services adopted a minimum fund balance policy for its General Fund to maintain a minimum unassigned fund balance equal to 35 to 50 percent of the General Fund's operating expenditures. At December 31, 2018, unrestricted fund balance in the General Fund was below the minimum fund balance levels.

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

1. Summary of Significant Accounting Policies

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

14. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; 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 Net Position for Change in Accounting Principle

During the year ended December 31, 2018, the Health and Human Services adopted new accounting guidance by implementing the provisions of GASB Statement 75. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, changes the amount employers report as OPEB expense and defers some allocations of expenses to future years as deferred outflows or inflows of resources. This statement also requires additional note disclosures and schedules in the required supplementary information. Beginning net position has been restated to reflect this change.

	Governmental Activities
Net Position, January 1, 2018, as previously reported	\$ (6,702,330)
Restatement of net position Adjustment for OPEB	(82,272)
Net Position, January 1, 2018, as restated	\$ (6,784,602)

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

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and cash equivalents	\$ 5,875,579
Statement of fiduciary net position	
Cash and cash equivalents	208,102
Total Cash and Cash Equivalents	\$ 6,083,681
Checking	\$ 2,658,438
Savings	2,416,478
MAGIC Term	250,000
MAGIC Portfolio	758,765
Total Deposits	\$ 6,083,681

a. Deposits

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

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

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

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Health and Human Services' deposits may not be returned to it. The Health and Human Services has adopted a policy for custodial credit risk of obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2018, Southwest Health and Human Services' deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;

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

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

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

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

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

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

outside party. The Health and Human Services has adopted a policy for custodial credit risk that permits brokers to hold investments only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage are available.

Concentration of Credit Risk

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

MAGIC is a local government investment pool which is quoted at a NAV. The Health and Human Services invests in this pool for the purpose of the joint investment of the Health and Human Services' money with those of counties to enhance the investment earnings accruing to each member. The MAGIC Fund currently consists of the MAGIC Portfolio and the MAGIC Term Series.

MAGIC Portfolio is valued using amortized cost. Shares of MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the Health and Human Services has a sufficient number of shares to meet their redemption request. The MAGIC Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its NAV not reasonably practical.

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

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

Shares of MAGIC Term Series are purchased to mature upon pre-determined maturity dates selected by the Health and Human Services at the time of purchase. Should the Health and Human Services need to redeem shares in a MAGIC Term Series prematurely, they must provide notice at least seven days prior to premature redemption date. The value of a premature redemption is equal to the original price for such share, plus dividends thereon, at the projected yield, less such share's allocation of any losses incurred by the series, less a premature redemption penalty, if any.

2. Receivables

Receivables as of December 31, 2018, for the Health and Human Services' governmental activities are as follows:

	Receivable	Less: Allowance for Uncollectible Accounts	Net Receivables
Accounts receivable	\$ 3,099,248	\$ (2,628,369)	\$ 470,879
Interest	4,638	-	4,638
Advance to other governments	80,749	-	80,749
Due from other governments	2,299,365	-	2,299,365
Total Governmental Activities	\$ 5,484,000	\$ (2,628,369)	\$ 2,855,631

Net receivables are expected to be collected in the subsequent year.

Chippewa County is the designated fiscal host for the Southwest Minnesota Regional Minnesota Family Investment Program/Divisionary Work Program (MFIP/DWP) Partnership. This is a 14-county partnership created to administer MFIP/DWP funds. Southwest Health and Human Services advanced \$80,749 to Chippewa County for cash flow purposes. The funds will be returned when the partnership is dissolved.

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

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Office furniture and equipment	\$ 1,088,146	\$ 69,595	\$ 89,300	\$ 1,068,441
Automotive equipment	591,139	-	-	591,139
Total capital assets depreciated	\$ 1,679,285	\$ 69,595	\$ 89,300	\$ 1,659,580
Less: accumulated depreciation for				
Office furniture and equipment	\$ 673,666	\$ 131,868	\$ 86,782	\$ 718,752
Automotive equipment	261,028	104,214	-	365,242
Total accumulated depreciation	\$ 934,694	\$ 236,082	\$ 86,782	\$ 1,083,994
Governmental Activities Capital Assets, Net	\$ 744,591	\$ (166,487)	\$ 2,518	\$ 575,586

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

Governmental Activities	
Human services	\$ 198,130
Health services	37,952
Total Depreciation Expense – Governmental Activities	\$ 236,082

B. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2018, were as follows:

Accounts payable	\$ 890,470
Claims payable	160,413
Salaries payable	985,011
Due to other governments	337,984
Total Payables	\$ 2,373,878

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

2. Detailed Notes on All Funds

B. Liabilities and Deferred Inflows of Resources (Continued)

2. Deferred Inflows of Resources – Unavailable Revenue

In the governmental funds, unavailable revenue consists of state grants, federal grants, intergovernmental reimbursements, and charges for services revenue not collected soon enough after year-end to pay liabilities of the current period. Deferred inflows of resources at December 31, 2018, are summarized below by fund:

	Intergovernmental	Other	Total
Major governmental funds			
General	\$ 128,225	\$ 135,680	\$ 263,905
Health Services	55,706	-	55,706
Total	\$ 183,931	\$ 135,680	\$ 319,611

3. Operating Leases

Southwest Health and Human Services entered into leases for office space with each participating county as follows:

- Lincoln County, for office space in the Lincoln County Courthouse in Ivanhoe, Minnesota. The lease began in 2011 and is renewed annually. The lease calls for quarterly payments of \$6,136. Lease payments to Lincoln County totaled \$24,544 in 2018.
- Lyon County, for office space in the Lyon County Government Center in Marshall, Minnesota. The lease began in 2010 and is renewed annually. The lease calls for monthly payments of \$22,480. Lease payments to Lyon County totaled \$269,760 in 2018.
- Murray County, for the Human Services building in Slayton, Minnesota. The lease began in 2011 and is renewed annually. The lease calls for monthly payments of \$8,000. Lease payments to Murray County totaled \$96,000 in 2018.

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

2. Detailed Notes on All Funds

B. Liabilities and Deferred Inflows of Resources

3. Operating Leases (Continued)

- Pipestone County, for the Health and Human Services building in Pipestone, Minnesota. The lease began in 2013 and is renewed annually. The lease calls for quarterly payments of \$17,095. Lease payments to Pipestone County totaled \$68,380 in 2018.
- Redwood County, for office space in the Redwood County Courthouse and the Public Health building, both in Redwood Falls, Minnesota. The lease began in 2013 and is renewed annually. The lease calls for monthly payments of \$10,250. Lease payments to Redwood County totaled \$123,000 in 2018.
- Rock County, for the Human Services building in Luverne, Minnesota. The lease began in 2013 and is renewed annually. The lease calls for monthly payments of \$6,729. Lease payments to Rock County totaled \$80,750 in 2018.

4. Long-Term Debt

Capital Leases

The Health and Human Services has entered into lease agreements as a lessee for financing copy machines, postage machines, and vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Capital lease payments are paid from the General Fund and the Health Services Special Revenue Fund.

Capital leases consist of the following at December 31, 2018:

Lease	Final Maturity	Installments	Payment Amount	Original Issue Amount	Outstanding Balance December 31, 2018
Copy machines	2019 – 2023	Monthly	\$ 3,634	\$ 175,326	\$ 69,310
Postage machines	2019 – 2021	Monthly	371	19,215	5,816
Vehicles	2021	Monthly	7,504	345,905	183,028
Total Capital Leases					<u>\$ 258,154</u>

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

2. Detailed Notes on All Funds

B. Liabilities and Deferred Inflows of Resources

4. Long-Term Debt

Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2018, were as follows:

Year Ending December 31	Governmental Activities
2019	\$ 125,505
2020	118,060
2021	41,233
2022	7,241
2023	1,511
Total minimum lease payments	\$ 293,550
Less: amount representing interest	(35,396)
Present Value of Minimum Lease Payments	\$ 258,154

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 1,026,427	\$ 1,137,336	\$ 1,180,842	\$ 982,921	\$ 132,006
Capital leases	351,106	11,316	104,268	258,154	103,740
Total	\$ 1,377,533	\$ 1,148,652	\$ 1,285,110	\$ 1,241,075	\$ 235,746

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

2. Detailed Notes on All Funds (Continued)

C. Other Postemployment Benefits (OPEB)

Plan Description

Southwest Health and Human Services administers an other postemployment benefits plan, a single-employer defined benefit health care plan, to eligible retirees and their dependents.

Funding Policy

Employees who were employed by Lincoln, Lyon, and Murray Human Services (LLMHS) and were employed by that agency prior to August 22, 2005, worked continuously for LLMHS through December 31, 2010, with no break in service, were hired by Southwest Health and Human Services as of January 1, 2011, with no break in service, and are employed on a full-time basis are entitled to receive four percent of single premium per year of service toward the employee's health and dental single insurance premium, including years of service at LLMHS. Payments will be discontinued when the retiree becomes eligible for Medicare or if the retiree obtains employment where single health insurance is available at no cost to the employee. The amount shall not exceed the total amount paid by the Health and Human Services on behalf of their employees. For 2018, this amount was \$616 per month.

The Health and Human Services also provides health insurance benefits for eligible retired employees and their dependents. The Health and Human Services provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy.

No assets have been accumulated in a trust that meets the criteria in paragraph four of GASB 75. The OPEB plan does not issue a stand-alone financial report.

As of the December 31, 2018, actuarial valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	7
Active plan participants	<u>254</u>
Total	<u><u>261</u></u>

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

2. Detailed Notes on All Funds

C. Other Postemployment Benefits (OPEB) (Continued)

Total OPEB Liability

The Health and Human Services' total OPEB liability of \$1,606,048 was measured as of January 1, 2018, and was determined by an actuarial valuation as of that date. The OPEB liability is liquidated through the General Fund and Health Services Fund.

The total OPEB liability in the fiscal year-end December 31, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method	Entry Age, level percentage of pay
Inflation	2.50 percent
Salary increases	3.00 percent
Health care cost trend	6.50 percent as of January 1, 2018, decreasing 0.25 percent per year to an ultimate rate of 5.00 percent over six years

The salary increases have been determined on the long-term inflation assumption plus any additional wage increase assumption in excess of inflation. The additional wage increase assumption is based on review of increases in the taxable wage base compared to inflation.

The current year discount rate is 3.30 percent. For the current valuation, the discount rate is the 20-year municipal bond yield. The municipal bond rate assumption was set by considering published rate information for 20-year high quality, tax-exempt, general obligation municipal bonds as of January 1, 2018.

Mortality rates are based on Society of Actuaries RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.

Economic assumptions are based on input from a variety of published sources of historical and projected future financial data.

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

2. Detailed Notes on All Funds

C. Other Postemployment Benefits (OPEB) (Continued)

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2017 (Restated)	\$ 1,573,292
Changes for the year	
Service cost	\$ 74,242
Interest	52,825
Benefit payments	(94,311)
Net change	\$ 32,756
Balance at December 31, 2018	\$ 1,606,048

OPEB Liability Sensitivity

The following presents the total OPEB liability of the Health and Human Services, calculated using the discount rate previously disclosed, as well as what the Health and Human Services' total OPEB liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	Discount Rate	Total OPEB Liability
1% Decrease	2.30%	\$ 1,711,404
Current	3.30	1,606,048
1% Increase	4.30	1,504,985

The following presents the total OPEB liability of the Health and Human Services, calculated using the health care cost trend previously disclosed, as well as what the Health and Human Services' total OPEB liability would be if it were calculated using health care cost trend rates that are 1.00 percentage point lower or 1.00 percentage point higher than the current health care cost trend rate:

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

2. Detailed Notes on All Funds

C. Other Postemployment Benefits (OPEB)

OPEB Liability Sensitivity (Continued)

	Health Care Trend Rate	Total OPEB Liability
1% Decrease	5.50% Decreasing to 4.00%	\$ 1,463,662
Current	6.50% Decreasing to 5.00%	1,606,048
1% Increase	7.50% Decreasing to 6.00%	1,769,569

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the Health and Human Services recognized OPEB expense of \$127,067. The Health and Human Services reported deferred outflows of resources related to OPEB resulting from contributions made subsequent to the measurement date of \$81,563 which will be recognized as a reduction of the OPEB liability for the year ended December 31, 2019. The Health and Human Services had no deferred inflows of resources related to OPEB to report.

Changes in Actuarial Methods and Assumptions

The following changes in actuarial methods and assumptions occurred in 2018:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.
- The retirement and withdrawal tables for all employees were updated.
- The discount rate was changed from 3.50 percent to 3.30 percent.
- The actuarial cost method used changed from the Projected Unit Credit with Linear Proration to Decrement to the Entry Age, level percent of pay.

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

2. Detailed Notes on All Funds (Continued)

D. Pension Plans

1. Defined Benefit Pension Plan

a. 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 Plan (the General Employees Plan), which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

The General Employees Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No Southwest Health and Human Services employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

b. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.00 percent for the post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will be 2.50 percent. If, after reverting to a 2.50 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.00 percent.

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

2. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plan

b. Benefits Provided (Continued)

The benefit provisions stated in the following paragraph 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 their public service.

Benefits are based on a member's highest average salary for any 60 consecutive months of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for Coordinated Plan members. Members hired prior to July 1, 1989, receive 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 Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989.

For General Employees Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

c. Contributions

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. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary in 2018.

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

2. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plan

c. Contributions (Continued)

In 2018, the Health and Human Services was required to contribute 7.50 percent of annual covered salary. The employee and employer contribution rates did not change from the previous year.

The Health and Human Services' contributions for the General Employees Plan for the year ended December 31, 2018, were \$910,272. The contributions are equal to the contractually required contributions as set by state statute.

d. Pension Costs

At December 31, 2018, the Health and Human Services reported a liability of \$10,279,684 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Health and Human Services' proportion of the net pension liability was based on the Health and Human Services' contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the Health and Human Services' proportion was 0.1853 percent. It was 0.1864 percent measured as of June 30, 2017. The Health and Human Services recognized pension expense of \$1,278,123 for its proportionate share of the General Employees Plan's pension expense.

The Health and Human Services also recognized \$78,641 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan for the fiscal years ended June 30, 2018 and 2019, and \$6 million thereafter, through calendar year 2031.

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

2. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plan

d. Pension Costs (Continued)

The Health and Human Services' proportionate share of the net pension liability	\$	10,279,684
State of Minnesota's proportionate share of the net pension liability associated with the Health and Human Services		337,230
Total		\$ 10,616,914

The Health and Human Services reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 273,629	\$ 284,766
Changes in actuarial assumptions	932,686	1,159,725
Difference between projected and actual investment earnings	-	1,133,540
Changes in proportion	509,021	52,667
Contributions paid to PERA subsequent to the measurement date	449,941	-
Total	\$ 2,165,277	\$ 2,630,698

The \$449,941 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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

2. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plan

d. Pension Costs (Continued)

Year Ended December 31	Pension Expense Amount
2019	\$ 548,107
2020	(394,269)
2021	(854,646)
2022	(214,554)

e. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25 percent.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 30, 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which

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

2. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plan

e. Actuarial Assumptions (Continued)

best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	36%	5.10%
International stocks	17	5.30
Bonds (fixed income)	20	0.75
Alternative assets (private markets)	25	5.90
Cash	2	0.00

f. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2018, which remained consistent with 2017. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

g. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2018:

- The mortality projection scale was changed from MP-2015 to MP-2017.

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

2. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plan

g. Changes in Actuarial Assumptions (Continued)

- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.

h. Pension Liability Sensitivity

The following presents the Health and Human Services' proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what the Health and Human Services' proportionate share of the net pension liability would be if it were calculated using a discount rate 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	Proportionate Share of the	
	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 16,705,803
Current	7.50	10,279,684
1% Increase	8.50	4,975,107

i. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

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

2. Detailed Notes on All Funds

D. Pension Plans (Continued)

2. Defined Contribution Plan

Two Governing Board Members of Southwest Health and Human Services are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the state legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by Southwest Health and Human Services during the year ended December 31, 2018, were:

	Employee	Employer
Contribution amount	\$ 70	\$ 70
Percentage of covered payroll	5.00%	5.00%

3. Risk Management

Southwest Health and Human Services is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; or natural disasters for which the Health and Human Services carries commercial insurance. To manage these risks, the Health and Human Services has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT

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

3. Risk Management (Continued)

is a public entity risk pool currently operated as a common risk management and insurance program for its members. The Health and Human Services is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For all other risk, other than pertaining to health insurance, the Health and Human Services carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2018 and 2019. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Health and Human Services in a method and amount to be determined by MCIT.

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

On October 15, 2013, Southwest Health and Human Services entered into a joint powers agreement with four counties (Lyon, Murray, Redwood, and Swift) to form the Minnesota Public Sector Collaborative to self-insure health insurance as of January 1, 2014. Premiums will be withheld from employees and transferred into an internal service fund. Claims will be managed and paid by a third party, and the Health and Human Services will be billed weekly, in aggregate, for claims incurred.

The Health and Human Services established a limited risk management program for health coverage in 2014. Premiums are paid into the Internal Service Fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. The Health and Human Services retained risk up to a \$60,000 stop-loss per person insured (employee and eligible dependent) per year (\$1,000,000 aggregate) for the health plan. Liabilities of the Internal Service Fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

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

3. Risk Management (Continued)

The December 31, 2018, liability is determined based on detailed reports received by the Health and Human Services from the third-party administrator for claims incurred, adjusted, and paid through February 28, 2019. Changes in the balances of claims liabilities during 2017 and 2018 are as follows:

	2017	2018
Unpaid claims, January 1	\$ 126,446	\$ 365,108
Incurred claims	2,696,200	2,441,327
Claims payments	(2,457,538)	(2,646,022)
Unpaid Claims, December 31	\$ 365,108	\$ 160,413

4. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the Southwestern Minnesota Adult Mental Health Consortium Board was created under the authority of Minn. Stat. § 471.59. Presently, its members include Big Stone, Chippewa, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Renville, Swift, and Yellow Medicine Counties; Southwest Health and Human Services,

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

4. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

representing Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock Counties; and Des Moines Valley Health and Human Services (DVHHS), representing Cottonwood and Jackson Counties. The Board is headquartered in Windom, Minnesota, where DVHHS acts as fiscal agent.

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

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained by contacting DVHHS at 11 Fourth Street, Windom, Minnesota 56101.

PrimeWest Health

The PrimeWest Central County-Based Purchasing Initiative (since renamed PrimeWest Health) was established in December 1998 by a joint powers agreement with Big Stone, Douglas, Grant, McLeod, Meeker, Pipestone, Pope, Renville, Stevens, and Traverse Counties under the authority of Minn. Stat. § 471.59. Beltrami, Clearwater, and Hubbard Counties were later added to PrimeWest Health. Pipestone County has since joined Southwest Health and Human Services for public health and human services functions. The partnership is organized to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care as authorized by Minn. Stat. § 256B.692. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs in complying with Minnesota Department of Health requirements as set forth in Minn. Stat. chs. 62D and 62N.

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

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

4. Summary of Significant Contingencies and Other Items

B. Joint Ventures

PrimeWest Health (Continued)

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

Financing is provided by Medical Assistance and General Assistance Medical Care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties, if necessary, to cover operational costs. Southwest Health and Human Services did not make any contributions to the Initiative in 2018.

Complete financial information can be obtained from its administrative office at PrimeWest Health, 3905 Dakota Street, Suite 101, Alexandria, Minnesota 56308.

Supporting Hands Nurse Family Partnership Board

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

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2018, Southwest Health and Human Services made \$146,702 in contributions to the Partnership.

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

4. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Supporting Hands Nurse Family Partnership Board (Continued)

Renville County acts as fiscal agent for the Supporting Hands Nurse Family Partnership. A complete financial report of the Supporting Hands Nurse Family Partnership can be obtained from Renville County at the Renville County Administrator's Office, Renville County Government Services Center, 105 South 5th Street, Suite 1194, Olivia, Minnesota 56277.

C. Jointly-Governed Organizations

Lyon Murray Families Project Collaborative

The Lyon Murray Families Project Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. The current members are Southwest Health and Human Services, Western Mental Health, Western Community Action, Marshall Public Schools, Murray County Central Schools, and Russell-Tyler-Ruthton Public Schools. The governing board is composed of eight members. Southwest Health and Human Services acts as fiscal agent for the Lyon Murray Families Project Collaborative and reports the fiscal transactions of the Collaborative as an agency fund. During the year, Southwest Health and Human Services made payments of \$111,149 to the Collaborative.

Rock-Pipestone Family Services Collaborative

The Rock-Pipestone Family Services Collaborative was established December 9, 2004, pursuant to Minn. Stat. §§ 471.59 and 124D.23. The purpose of the Collaborative is to provide an interagency approach to providing child and family services. The management of the Rock-Pipestone Family Services Collaborative is vested in a governing board composed of 16 members. Each member appoints its representative for a one-year term. No single member party retains control over the operations or has oversight responsibility for the Collaborative. Southwest Health and Human Services acts as fiscal agent for the Rock-Pipestone Family Services Collaborative and reports the fiscal transactions of the Collaborative as an agency fund. During the year, Southwest Health and Human Services made payments of \$41,109 to the Collaborative.

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

C. Jointly-Governed Organizations (Continued)

Redwood Family Service Collaborative

The Redwood Family Service Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. This was transferred to Southwest Health and Human Services on January 1, 2013, when Redwood County joined Southwest Health and Human Services. Southwest Health and Human Services, in an agent capacity, reports the cash transactions of the Collaborative as an agency fund in its financial statements. Southwest Health and Human Services has no operational or financial control over the Collaborative. During the year, Southwest Health and Human Services made payments of \$90,276 to the Collaborative.

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, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 23,430,146	\$ 23,430,146	\$ 24,030,708	\$ 600,562
Charges for services	2,182,554	2,182,554	2,209,226	26,672
Investment earnings	8,400	8,400	35,153	26,753
Miscellaneous	337,650	337,650	484,246	146,596
Total Revenues	\$ 25,958,750	\$ 25,958,750	\$ 26,759,333	\$ 800,583
Expenditures				
Current				
Human services				
Administrative	\$ 83,935	\$ 83,935	\$ 263,845	\$ (179,910)
Income maintenance	7,655,184	7,655,184	7,341,880	313,304
Social services	17,818,155	17,818,155	17,929,816	(111,661)
Information systems	401,476	401,476	329,292	72,184
Local collaborative time study	-	-	234,883	(234,883)
Total human services	\$ 25,958,750	\$ 25,958,750	\$ 26,099,716	\$ (140,966)
Debt service				
Principal	\$ -	\$ -	\$ 87,584	\$ (87,584)
Interest	-	-	27,159	(27,159)
Total debt service	\$ -	\$ -	\$ 114,743	\$ (114,743)
Total Expenditures	\$ 25,958,750	\$ 25,958,750	\$ 26,214,459	\$ (255,709)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 544,874	\$ 544,874
Other Financing Sources (Uses)				
Capital leases	-	-	9,505	9,505
Net Change in Fund Balance	\$ -	\$ -	\$ 554,379	\$ 554,379
Fund Balance – January 1	3,051,190	3,051,190	3,051,190	-
Fund Balance – December 31	\$ 3,051,190	\$ 3,051,190	\$ 3,605,569	\$ 554,379

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

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
HEALTH SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 3,169,684	\$ 3,169,684	\$ 3,001,968	\$ (167,716)
Charges for services	617,980	617,980	629,149	11,169
Investment earnings	1,600	1,600	6,695	5,095
Miscellaneous	8,900	8,900	14,721	5,821
Total Revenues	\$ 3,798,164	\$ 3,798,164	\$ 3,652,533	\$ (145,631)
Expenditures				
Current				
Health				
Administration	\$ 612,875	\$ 612,875	\$ 641,776	\$ (28,901)
Nursing service	2,296,633	2,296,633	2,207,481	89,152
Health education	593,168	593,168	512,598	80,570
Environmental health	295,488	295,488	285,192	10,296
Total health	\$ 3,798,164	\$ 3,798,164	\$ 3,647,047	\$ 151,117
Debt service				
Principal	\$ -	\$ -	\$ 16,684	\$ (16,684)
Interest	-	-	5,174	(5,174)
Total debt service	\$ -	\$ -	\$ 21,858	\$ (21,858)
Total Expenditures	\$ 3,798,164	\$ 3,798,164	\$ 3,668,905	\$ 129,259
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (16,372)	\$ (16,372)
Other Financing Sources (Uses)				
Capital leases	-	-	1,811	1,811
Net Change in Fund Balance	\$ -	\$ -	\$ (14,561)	\$ (14,561)
Fund Balance – January 1	1,862,115	1,862,115	1,862,115	-
Fund Balance – December 31	\$ 1,862,115	\$ 1,862,115	\$ 1,847,554	\$ (14,561)

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

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

EXHIBIT A-3

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2018**

	2018
Total OPEB Liability	
Service cost	\$ 74,242
Interest	52,825
Benefit payments	(94,311)
Net change in total OPEB liability	\$ 32,756
Total OPEB Liability – Beginning	1,573,292
Total OPEB Liability – Ending	\$ 1,606,048
Covered-employee payroll	\$ 13,147,916
Total OPEB liability (asset) as a percentage of covered-employee payroll	12.22%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

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

EXHIBIT A-4

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2018**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Southwest Health and Human Services (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.1853 %	\$ 10,279,684	\$ 337,230	\$ 10,616,914	\$ 12,455,109	82.53 %	79.53 %
2017	0.1864	11,899,653	149,646	12,049,299	12,009,718	99.08	75.90
2016	0.1760	14,290,327	186,638	14,476,965	10,922,481	130.83	68.91
2015	0.1693	8,774,005	N/A	8,774,005	9,947,597	88.20	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A – Not Applicable

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

EXHIBIT A-5

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2018**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b – a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2018	\$ 910,272	\$ 910,272	\$ -	\$ 12,135,946	7.50 %
2017	938,273	938,273	-	12,510,976	7.50
2016	826,463	826,463	-	11,019,480	7.50
2015	752,452	752,452	-	10,032,653	7.50

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The Health and Human Services' year-end is December 31.

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

There were no budget amendments during 2018.

4. Excess of Expenditures over Budget

The following individual fund had expenditures in excess of budget for the year ended December 31, 2018:

	Expenditures	Final Budget	Excess
General Fund	\$ 26,214,459	\$ 26,958,750	\$ 255,709

5. Other Postemployment Benefits Funded Status

In 2018, Southwest Health and Human Services implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 2.C. in the notes to the financial statements for additional information regarding the Health and Human Services' other postemployment benefits.

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

6. Employer Contributions to Other Postemployment Benefits

Assets have not been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75 to pay related benefits.

The following changes in actuarial methods and assumptions occurred in 2018:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.
- The retirement and withdrawal tables for all employees were updated.
- The discount rate was changed from 3.50 percent to 3.30 percent.
- The actuarial cost method used changed from the Projected Unit Credit with Linear Proration to Decrement to the Entry Age, level percent of pay.

7. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the fiscal year June 30:

General Employees Retirement Plan

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.

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

7. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan (Continued)

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21,000,000 in calendar years 2017 and 2018 and returns to \$31,000,000 through calendar year 2031. The state's required contribution is \$16,000,000 in PERA's fiscal years 2018 and 2019, and returns to \$6,000,000 annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

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SUPPLEMENTARY INFORMATION

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FIDUCIARY FUNDS

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

AGENCY FUNDS

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

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

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

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

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

EXHIBIT B-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
<u>LCTS LYON MURRAY COLLABORATIVE</u>				
<u>Assets</u>				
Cash and cash equivalents	<u>\$ 93,354</u>	<u>\$ 111,749</u>	<u>\$ 94,275</u>	<u>\$ 110,828</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 93,354</u>	<u>\$ 111,749</u>	<u>\$ 94,275</u>	<u>\$ 110,828</u>
 <u>LCTS ROCK-PIPESTONE COLLABORATIVE</u>				
<u>Assets</u>				
Cash and cash equivalents	<u>\$ 44,725</u>	<u>\$ 42,762</u>	<u>\$ 42,711</u>	<u>\$ 44,776</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 44,725</u>	<u>\$ 42,762</u>	<u>\$ 42,711</u>	<u>\$ 44,776</u>
 <u>LCTS REDWOOD COLLABORATIVE</u>				
<u>Assets</u>				
Cash and cash equivalents	<u>\$ 46,722</u>	<u>\$ 92,220</u>	<u>\$ 87,599</u>	<u>\$ 51,343</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 46,722</u>	<u>\$ 92,220</u>	<u>\$ 87,599</u>	<u>\$ 51,343</u>

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

**EXHIBIT B-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
<u>LOCAL ADVISORY COUNCIL</u>				
<u>Assets</u>				
Cash and cash equivalents	<u>\$ 1,399</u>	<u>\$ -</u>	<u>\$ 244</u>	<u>\$ 1,155</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 1,399</u>	<u>\$ -</u>	<u>\$ 244</u>	<u>\$ 1,155</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and cash equivalents	<u>\$ 186,200</u>	<u>\$ 246,731</u>	<u>\$ 224,829</u>	<u>\$ 208,102</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 186,200</u>	<u>\$ 246,731</u>	<u>\$ 224,829</u>	<u>\$ 208,102</u>

OTHER SCHEDULES

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

EXHIBIT C-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2018**

Appropriations and Shared Revenues

State

PERA rate reimbursement	\$	78,641
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Local

Out of home placement aid		102,407
Contributions from counties		11,159,817
		11,159,817

Total appropriations and shared revenues	\$	11,340,865
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Reimbursement for Services

State

Minnesota Department of Human Services	\$	2,439,054
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Local

Des Moines Valley Health and Human Services		59,358
Counties		51,332
		51,332

Total reimbursement for services	\$	2,549,744
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Payments

Local

Local contributions	\$	43,507
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Grants

State

Minnesota Department of Health	\$	623,869
Human Services		5,366,125
		5,366,125

Total state	\$	5,989,994
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Federal

Department of Agriculture	\$	1,196,335
Education		13,575
Health and Human Services		5,898,656
		5,898,656

Total federal	\$	7,108,566
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Total state and federal grants	\$	13,098,560
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Total Intergovernmental Revenue	\$	27,032,676
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**SOUTHWEST HEALTH AND HUMAN SERVICES
MARSHALL, MINNESOTA**

EXHIBIT C-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	18172MN004W1003	\$ 495,086
WIC Grants to States (WGS)	10.578	Not Provided	67,254
Passed Through Minnesota Department of Human Services SNAP Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	182MN101S2514	<u>524,485</u>
Total U.S. Department of Agriculture			<u>\$ 1,086,825</u>
U.S. Department of Education			
Passed Through Minnesota Department of Health Special Education – Grants for Infants and Families	84.181	H181A150029	<u>\$ 13,575</u>
U.S. Department of Health and Human Services			
Passed Through the National Association of County and City Health Officials Medical Reserve Corps Small Grant Program	93.008	Not Provided	\$ 1,036
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	6 NU90TP921911	74,502
Universal Newborn Hearing Screening	93.251	H61MC0035	225
Immunization Cooperative Agreements	93.268	6 NH23IP000737-05-02	7,000
TANF Cluster Temporary Assistance for Needy Families	93.558	Not Provided	113,644
(Total Temporary Assistance for Needy Families 93.558 \$569,603)			
Maternal and Child Health Services Block Grant to the States	93.994	B04MC29349	102,974

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

**EXHIBIT C-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Health and Human Services (Continued)			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families TANF Cluster	93.556	G-1701MNFPS	51,042
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$569,603)	93.558	1801MNTANF	455,959
Child Support Enforcement	93.563	1804MNCSES	231,602
Child Support Enforcement (Total Child Support Enforcement 93.563 \$1,127,937)	93.563	1804MNCEST	896,335
Community-Based Child Abuse Prevention Grants CCDF Cluster	93.590	G-1702MNFPRG	10,039
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	G-1801MNCDF	24,283
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1701MNCWSS	13,506
Foster Care – Title IV-E	93.658	1801MNFOST	311,474
Social Services Block Grant	93.667	G-1801MNSOSR	531,467
Chafee Foster Care Independence Program	93.674	G-1801MNCILP	51,853
Children's Health Insurance Program Medicaid Cluster	93.767	1805MN5R21	553
Medical Assistance Program	93.778	1805MN5ADM	2,614,109
Medical Assistance Program (Total Medical Assistance Program 93.778 \$2,639,100)	93.778	1805MN5MAP	24,991
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2B08TI010027-17	188,978
Total U.S. Department of Health and Human Services			\$ 5,705,572
Total Federal Awards			\$ 6,805,972

The Health and Human Services did not pass any federal awards through to subrecipients during the year ended December 31, 2018.

Totals by Cluster

Total expenditures for SNAP Cluster	\$ 524,485
Total expenditures for TANF Cluster	569,603
Total expenditures for CCDF Cluster	24,283
Total expenditures for Medicaid Cluster	2,639,100

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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, 2018**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Southwest Health and Human Services under programs of the federal government for the year ended December 31, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Southwest Health and Human Services, it is not intended to and does not present the financial position, changes in net position, or cash flows of Southwest Health and Human Services.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Southwest Health and Human Services has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 7,108,566
Grants received more than 60 days after year-end, considered unavailable revenue in 2018	
Promoting Safe and Stable Families (CFDA No. 93.556)	10,164
Community-Based Child Abuse Prevention Grants (CFDA No. 93.590)	1,894
Stephanie Tubbs Jones Child Welfare Services Program (CFDA No. 93.645)	284
Chafee Foster Care Independence Program (CFDA No. 93.674)	14,530
Maternal and Child Health Services Block Grant to the States (CFDA No. 93.994)	5,948
Unavailable revenue in 2017, recognized as revenue in 2018	
Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA No. 10.557)	(14,162)
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA No. 10.561)	(95,348)
Promoting Safe and Stable Families (CFDA No. 93.556)	(21,344)
Temporary Assistance for Needy Families (CFDA No. 93.558)	(27,145)
Child Support Enforcement (CFDA No. 93.563)	(150,373)
Community-Based Child Abuse Prevention Grants (CFDA No. 93.590)	(4,629)
Stephanie Tubbs Jones Child Welfare Services Program (CFDA No. 93.645)	(4,576)
Foster Care – Title IV-E (CFDA No. 93.658)	(4,629)
Chafee Foster Care Independence Program (CFDA No. 93.674)	(13,208)
	<hr/>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 6,805,972</u>

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Health and Human Services as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Health and Human Services' basic financial statements, and have issued our report thereon dated July 31, 2019.

Internal Control Over Financial Reporting

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Health and

Human Services' financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Health and Human Services' financial statements: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Southwest Health and Human Services administers no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Southwest Health and Human Services failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as items 2016-002 and 2018-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Health and Human Services' noncompliance with the above referenced provisions.

Southwest Health and Human Services' Response to Findings

Southwest Health and Human Services' responses to the legal compliance findings identified in our audit are described in the Corrective Action Plan. The Health and Human Services' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 31, 2019

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

Independent Auditor's Report

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

Report on Compliance for the Major Federal Program

We have audited Southwest Health and Human Services' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Health and Human Services' major federal program for the year ended December 31, 2018. Southwest Health and Human Services' major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Southwest Health and Human Services' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Southwest Health and Human Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, Southwest Health and Human Services complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2011-006 and 2017-002. Our opinion on the major federal program is not modified with respect to these matters.

Southwest Health and Human Services' responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. The Health and Human Services' responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2011-006 and 2017-002, that we consider to be significant deficiencies.

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

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 31, 2019

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

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

Federal Awards

Internal control over the major program:

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

Type of auditor's report issued on compliance for the major federal program: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **Yes**

The major federal program is:

Medicaid Cluster

CFDA No. 93.778

The threshold for distinguishing between Types A and B programs was \$750,000.

Southwest Health and Human Services qualified as a low-risk auditee? **Yes**

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

None.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 2011-006

Eligibility Testing

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award No. 1805MN5ADM, 2018

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: The Minnesota Department of Human Services (DHS) maintains the computer system, MAXIS, which is used by the Health and Human Services to support the eligibility determination process. While periodic supervisory case reviews are performed to monitor compliance with grant requirements for eligibility, not all documentation was available, updated, or input correctly to support participant eligibility. The following exceptions were noted in the sample of 40 case files tested:

- The application/annual review form in one case file did not record the receipt date of the form.
- Five case files did not meet all verification of asset requirements. Two case files had participant bank account information that was updated in MAXIS without supporting documentation in the case file. Three case files had prior participant bank account information in MAXIS that was not updated to reflect changes from the 2018 annual review.
- One case file did not meet all income verification requirements. The income amounts listed in MAXIS did not tie to the supporting documentation in the case file.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

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

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

The sample size was based on the guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: The improper input or updating of information into MAXIS and the lack of verification or follow-up of eligibility-determining factors increases the risk that a program participant will receive benefits when they are not eligible.

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

Recommendation: We recommend the Health and Human Services implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations exists and is properly input or updated in MAXIS and issues are followed up on in a timely manner. In addition, consideration should be given to providing further training to program personnel.

View of Responsible Official: Concur

Finding Number 2017-002

Procurement, Suspension, and Debarment

Program: U.S. Department of Health and Human Services’ Medical Assistance Program (CFDA No. 93.778), Award No. 1805MN5ADM, 2018

Pass-Through Agency: Minnesota Department of Human Services

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

Criteria: Federal regulations provided in Title 2 U.S. *Code of Federal Regulations* § 200.318(i) state that the non-federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to, the following: rationale for method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Non-federal entities must follow further federal guidance over full and open competition as provided in Title 2 U.S. *Code of Federal Regulations* § 200.319 along with verifying debarment, suspension, and exclusions as provided in Title 2 U.S. *Code of Federal Regulations* §§ 180.300, 200.213, and 200.318(h).

Condition: Five of the six procurement transactions over \$3,000 tested for compliance with federal regulations did not have adequate documentation of the history of procurement. These procurements also did not provide full and open competition as there was no solicitation of proposals, quotes, or bids. Additionally, for the two procurement transactions over \$25,000 tested for compliance, there was no verification performed to determine whether vendors were debarred, suspended, or whether other exclusions existed.

Questioned Costs: Not applicable.

Context: Six of 46 procurement transactions over \$3,000 were tested for compliance with federal regulations, including two of the nine procurements over \$25,000.

The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: The Health and Human Services is not in compliance with federal regulations.

Cause: During late 2016, the Health and Human Services approved procurement policies for use starting in 2017; however, those policies did not include all of the specific components required by the Uniform Guidance. The policies were updated and approved in late 2018. In addition, staff procuring goods and services did not adhere to policies.

Recommendation: We recommend the Health and Human Services adhere to written procurement policies addressing the specific components of the Uniform Guidance requirements. The Health and Human Services should also implement procedures to provide assurance that staff are aware of changes to federal award requirements. Documentation should be retained to support the history of procurements, full and open competition, and verification for suspension and debarment.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

View of Responsible Official: Concur

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2016-002

Monitoring Financial Health – General Fund Operations

Criteria: Southwest Health and Human Services is a joint powers entity formed by counties under Minn. Stat. § 471.59. Under Minn. Stat. § 471.59, subd. 3, the method of disbursement of funds by a joint powers entity “shall agree as far as practical with the method provided by law for the disbursement of funds by the parties to the agreement.” Minnesota Statutes, section 385.04 requires that counties pay the expenditures only if money is available in the fund for that purpose. Further, counties are limited in their ability to transfer money from one fund to another. The general rule in Minnesota is that county fund transfers, temporary and permanent, require board approval. *See* Minn. Stat. §§ 385.32 and 375.18, subd. 7. For larger counties, the treasurer is permitted to make temporary transfers as long as funds are transferred back as soon as they become available. *See* Minn. Stat. § 385.31.

Regarding fund balances, the Minnesota Office of the State Auditor recommends that at year-end, local governments maintain an unrestricted fund balance in their General Fund and special revenue funds of approximately 35 to 50 percent of fund operating revenues, or no less than five months of operating expenditures. The adequacy of unrestricted fund balance should be assessed based on an individual local government’s own circumstances. If the local government’s unrestricted fund balance is less than or greater than the recommended level, the local government should be able to explain the reason for the difference.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

Condition: The General Fund had deficit month-end cash balances in 2018 of (\$965,792) at the end of April and (\$501,975) at the end of May. Additionally, the General Fund unrestricted fund balance is only able to cover 1.7 months of expenditures based on 2018 expenditure levels. This is an increase from the December 31, 2017, unrestricted fund balance covering 1.4 months of expenditures.

Context: The Southwest Health and Human Services' General Fund is used to account for tax revenue levied and subsequently contributed to Southwest Health and Human Services by the participating counties, intergovernmental state and federal grants, and operating costs for the human services function of the Health and Human Services. During June 2018, the Health and Human Services purchased \$1,000,000 of investments as a result of improvements in its financial position.

Effect: The Southwest Health and Human Services' fund transfers are not consistent with Minn. Stat. §§ 385.04, 385.32, and 385.31. By allowing a deficit balance, cash is essentially being disbursed from other funds for purposes that were not budgeted or otherwise approved by the Joint Health and Human Services Board for those funds.

Cause: In recent years, anticipated revenues for the General Fund have not been sufficient to cover program costs. The participating counties did not levy taxes nor transfer funds to cover all expenditures in the General Fund.

Recommendation: We recommend that Southwest Health and Human Services maintain a positive cash balance in the General Fund. If costs incurred exceed available cash, Southwest Health and Human Services should approve a temporary or permanent transfer of cash from another fund. Southwest Health and Human Services may want to consider whether improvements need to be made to more accurately budget for the General Fund.

View of Responsible Official: Concur

ITEM ARISING THIS YEAR

Finding Number 2018-001

Contracting and Bidding Compliance

Criteria: Minnesota statutes contain requirements for the contracting and bidding processes used by local governments.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

Condition: The Health and Human Services was not in compliance with the following State of Minnesota contracting and bidding law requirements in relation to the remodel of the Women, Infants, and Children program rooms at the Marshall location:

- **Obtaining quotes:** Pursuant to Minn. Stat. § 471.345 subd. 4, for contracts estimated to exceed \$25,000 but not exceed \$100,000 (\$175,000 effective August 1, 2018), the contract may be made either upon sealed bids or by direct negotiation, by obtaining two or more quotations for the purchase when possible. The purchase of equipment was made based on a single quote of approximately \$65,000.
- **Responsible bidder certification:** Minnesota Statutes, section 16C.285 states that for each construction contract in excess of \$50,000, awarded pursuant to a lowest responsible bidder or best value process, the successful contractor must submit verification of compliance signed under oath by an owner or officer verifying compliance with the minimum criteria set forth in Minn. Stat. § 16C.285, subd. 3. No certification was obtained.
- **IC-134 forms:** Minnesota Statutes, section 270C.66 states that, before making final settlement with any contractor under a contract requiring the employment of employees for wages by the contractor and by subcontractors, the political or governmental subdivision is required to obtain a certificate from the Minnesota Department of Revenue that the contractor or subcontractor has complied with the employee withholding requirements of Minn. Stat. § 290.92. No IC-134 forms were obtained from the contractor.

Context: The Joint Health and Human Services Board was informed of the contractor chosen for the project at the January 17, 2018, Board meeting. This project was not brought to the Joint Board as an approval item on the meeting agenda.

Effect: Noncompliance with Minn. Stat. §§ 471.345, 16C.285, and 270.66.

Cause: The Health and Human Services' staff have limited experience with Minnesota contracting and bidding laws and were not aware of all the requirements.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

Recommendation: We recommend the Health and Human Services implement procedures to ensure that contracting and bidding is performed in accordance with applicable statutes for all future contracts.

View of Responsible Official: Acknowledged

V. PREVIOUSLY REPORTED ITEMS RESOLVED

2016-001 Audit Adjustments
2017-001 Prior Period Adjustment



Offices Located in:

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Ivanhoe, MN • 507-694-1452 Slayton, MN • 507-836-6144

Pipestone, MN • 507-825-6720 Luverne, MN • 507-283-5070

Marshall, MN • Human Services 507-537-6747 • Health Services 507-537-6713

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

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2018**

Finding Number: 2011-006

Finding Title: Eligibility Testing

Program Name: Medical Assistance Program (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action:

Kathryn Herding – Financial Assistance Supervisor
Jennifer Beek – Financial Assistance Supervisor
Corey Remiger – Financial Assistance Supervisor

Corrective Action Planned:

- Review and remind staff to utilize checklist with all applications and renewals to ensure all documentations are in the file.
- Discuss all verification of asset requirements and the importance of supporting documentation.
- Discuss all income verification requirements and the importance of supporting documentation.
- Discuss findings at unit meetings.
- Discuss importance of date stamps with all SWHHS staff.

Anticipated Completion Date:

September 30, 2019

Finding Number: 2017-002

Finding Title: Procurement, Suspension, and Debarment

Program Name: Medical Assistance Program (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action:

Sarah Kirchner – Fiscal Manager

Lisa DeBoer – Fiscal Officer

Jenny VanderPlaats – Fiscal Officer

Corrective Action Planned:

- Review procurement policy at Accounting unit meetings and Focus group meetings.
- Discuss procurement requirements with supervisors when bringing requests to monthly board meetings.
- Obtain appropriate authorized signoff and approval for all procurement.

Anticipated Completion Date:

September 30, 2019

Finding Number: 2016-002

Finding Title: Monitoring Financial Health – General Fund Operations

Name of Contact Person Responsible for Corrective Action:

Sarah Kirchner – Fiscal Manager

Lisa DeBoer – Fiscal Officer

Jenny VanderPlaats – Fiscal Officer

Corrective Action Planned:

- Monthly monitoring of fund balances.
- It is Southwest Health and Human Services intent to continue building back reserves over the next few years in order to maintain a balance necessary to cover no less than 5 months of operating expenditures.
- A number of cost savings measures have been put in place agency wide in an effort to continue building back reserves.

Anticipated Completion Date:

Ongoing

Finding Number: 2018-001

Finding Title: Contracting and Bidding Compliance

Name of Contact Person Responsible for Corrective Action:

Carol Biren – Public Health Director

Kristin Deacon – Nursing Supervisor

Corrective Action Planned:

- Review procurement policy with supervisors.
- Follow procurement policy requirements when entering into contracts.
- Supervisors work directly with Fiscal Manager to ensure proper procedures are followed related to procurement.

Anticipated Completion Date:

September 30, 2019

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Finding Number: 2011-006

Finding Title: Eligibility Testing

Program: Medical Assistance Program (CFDA No. 93.778)

Summary of Condition: While periodic supervisory case reviews are performed to monitor compliance with grant requirements for eligibility, not all documentation was available to support participant eligibility. In other circumstances, information was either input incorrectly or not properly updated in MAXIS. The following instances were noted during the audit:

- The application/annual review form in two case files did not record the receipt date of the form.
- Four case files did not meet all verification of asset requirements: Two case files had client bank account information in MAXIS that was not updated for statements on file from the 2017 annual review; one case file had client bank account information that was updated in MAXIS without supporting documentation in the case file; and one case file had a date in MAXIS that was not updated to reflect changes to client bank account information from the 2017 annual review.
- One case file did not meet all citizenship verification requirements. MAXIS indicated that citizenship was verified with a birth certificate, but the birth certificate was not in the case file.

Summary of Corrective Action Previously Reported: SWHHS staff will review audit findings at unit meetings subsequent to the audit. Additionally, Application and Renewal Processing Checklists will be reviewed and updated as needed and will be reviewed with staff at unit meetings.

Status: Partially Corrected. Case reviews have been implemented and checklist form has been implemented.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2016-001

Finding Title: Audit Adjustments

Summary of Condition: Significant audit adjustments were identified that resulted in significant changes to the Health and Human Services' financial statements.

Summary of Corrective Action Previously Reported: The Health and Human Services' Fiscal Manager and Fiscal Officers will review prior year journal entries to ensure all necessary entries from the prior year have been reversed, update the prior work papers to ensure appropriate documentation for all journal entries, and print draft financial statements from the financial system to review and ensure appropriate reporting is occurring. Additionally, they will utilize the new account created to account for insurance reimbursements received.

Status: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2016-002

Finding Title: Monitoring Financial Health – General Fund Operations

Summary of Condition: The General Fund had deficit month-end cash balances in 2017 of (\$678,550) at the end of April and (\$945,146) at the end of May. Additionally, the General Fund unrestricted fund balance is only able to cover 1.4 months of expenditures based on 2017 expenditure levels. This is a decrease from the December 31, 2016, unrestricted fund balance covering 1.9 months of expenditures.

Summary of Corrective Action Previously Reported: Fund balances will be monitored monthly and cost saving measures will be put into place in an agency-wide effort to continue building back reserves over the next few years in order to maintain a balance necessary to cover no less than 5 months of operating expenditures.

Status: Not Corrected. Please see Corrective Action Plan for explanation.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2017-001
Finding Title: Prior Period Adjustment

Summary of Condition: A prior period adjustment was identified that resulted in significant changes to the Health and Human Services' financial statements.

Summary of Corrective Action Previously Reported: The Health and Human Services' staff will obtain accurate grant contract documentation at the time grants are awards to ensure accurate financial reporting and to properly record annual activity for financial statements.

Status: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2017-002
Finding Title: Procurement, Suspension Debarment
Program: Medical Assistance Program (CFDA No. 93.778)

Summary of Condition: The procurement transactions over \$3,500 tested for compliance with federal regulations did not have adequate documentation of the history of procurement in accordance with Title 2 U.S. Code of Federal Regulations § 200.318. These procurements also did not provide full and open competition in accordance with Title 2 U.S. Code of Federal Regulations § 200.319, as there was no solicitation of proposals, quotes, or bids. Additionally, for the procurement transactions over \$25,000 tested for compliance, no verification was performed to determine whether vendors were debarred, suspended, or whether other exclusions existed in accordance with Title 2 U.S. Code of Federal Regulations §§ 180.300, 200.213, and 200.318(h).

Summary of Corrective Action Previously Reported: The Health and Human Services' procurement policy will be updated and these changes will be communicated to all staff. All procurements will include obtaining appropriate authorization and approval.

Status: Not Corrected. Please see Corrective Action Plan for explanation.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X