

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**SOUTHERN PRAIRIE COMMUNITY CARE**  
**MARSHALL, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2015**

## **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 150 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 700 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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**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

**Year Ended December 31, 2015**



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

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**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

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**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

ORGANIZATION  
2015

Name	Representing	Position
<b>Board Members</b>		
Jeffrey Lopez	Chippewa County	Chair
Norm Holmen	Cottonwood County	
Rose Schultz	Jackson County	
Jim Butterfield	Kandiyohi County	
Joan Jagt	Lincoln County	
Rick Anderson	Lyon County	
Bob Moline	Murray County	
Don Linssen	Nobles County	
Priscilla Klabunde	Redwood County	
Sherri Thompson	Rock County	
Gary Hendrickx	Swift County	Vice Chair
John Berends	Yellow Medicine County	
<b>Management Team</b>		
Mary Fischer		Executive Director
Rick Anderson		Treasurer

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Governing Board  
Southern Prairie Community Care  
Marshall, Minnesota

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the General Fund of Southern Prairie Community Care as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Southern Prairie Community Care's 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. 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 Southern Prairie Community Care's 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 Southern Prairie Community Care's 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 and the General Fund of Southern Prairie Community Care as of December 31, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter - Change in Accounting Principle***

As discussed in Note 1.E. to the financial statements, in 2015 Southern Prairie Community Care adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, 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 Southern Prairie Community Care's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional

analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 9, 2016

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

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**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

As management of Southern Prairie Community Care (SPCC), we offer the readers of SPCC's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2015. 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 financial statements. All amounts, unless otherwise indicated, are expressed in whole dollars.

**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net position is \$2,067,078, of which \$54,689 is the investment in capital assets.
- SPCC's net position increased by \$312,873 for the year ended December 31, 2015, after the restatement for Governmental Accounting Standards Board (GASB) Statements 68 and 71. Additional information about the implementation of GASB Statements 68 and 71 can be found in Note 1.E.
- Overall fund level revenues totaled \$4,365,846 and were \$376,196 more than expenditures.
- For the year ended December 31, 2015, the unrestricted fund balance of the General Fund was \$2,277,932, or 57.1 percent, of the total General Fund expenditures for the year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of two statements that combine government-wide financial statements and fund financial statements and notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information. This report also contains other required supplementary information such as a budgetary comparison schedule for the General Fund and schedules of proportionate share of net pension liability and of contributions for the pension plan.

The first column of each of the first two statements presents governmental fund data. These columns focus on how money flows in and out and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. These columns provide a detailed short-term view of SPCC's 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 programs. The relationship (or differences) between governmental funds and governmental activities (reported in the third column) is reconciled in the center column of each statement.

The third column in each statement presents the governmental activities' Statement of Net Position and the Statement of Activities, which provide information about the activities of SPCC as a whole and present a longer-term view of SPCC's finances. These columns include all assets and deferred outflows of resources, and liabilities and deferred inflows of resources using the full accrual basis of accounting, which is similar to the accounting method 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 net position are one indicator of whether SPCC's financial health is improving or deteriorating.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund statements. The notes to the financial statements can be found on pages 12 through 30 of this report.

Other information is provided as supplementary information regarding SPCC's intergovernmental revenue.

## Net Position

Over time, net position serves as a useful indicator of financial position. Southern Prairie Community Care's assets exceeded liabilities by \$2,067,078 at the close of 2015. The largest portion of SPCC's net position reflects current assets.

	<b>Net Position</b>	
	2015	2014 Restated*
<b>Assets</b>		
Current and other assets	\$ 2,405,625	\$ 2,011,350
Capital assets	54,689	14,365
<b>Total Assets</b>	<b>\$ 2,460,314</b>	<b>\$ 2,025,715</b>
Deferred Outflows of Resources	\$ 289,364	\$ 21,306
<b>Liabilities</b>		
Long-term liabilities outstanding	\$ 507,886	\$ 183,202
Other liabilities	149,108	109,614
<b>Total Liabilities</b>	<b>\$ 656,994</b>	<b>\$ 292,816</b>
Deferred Inflows of Resources	\$ 25,606	\$ -
<b>Net Position</b>		
Investment in capital assets	\$ 54,689	\$ 14,365
Unrestricted	2,012,389	1,739,840
<b>Total Net Position</b>	<b>\$ 2,067,078</b>	<b>\$ 1,754,205</b>

\*Restatement for change in accounting principles; see Note 1.E.

## Changes in Net Position

The following table summarizes the change in net position for 2015.

	2015	2014
Revenues		
Intergovernmental	\$ 277,442	\$ 223,800
Contributions	2,700,000	3,100,000
Charges for services	1,386,941	-
Investment earning	1,234	-
Miscellaneous	229	16,884
Total Revenues	\$ 4,365,846	\$ 3,340,684
Expenditures		
Public health	4,052,973	1,484,276
Increase (Decrease) in Net Position	\$ 312,873	\$ 1,856,408
Net Position - January 1, as restated	1,754,205*	59,693
Net Position - December 31, as reported	\$ 2,067,078	\$ 1,916,101

\*Amount includes a change in accounting principles; See Note 1.E.

## FINANCIAL ANALYSIS OF THE GENERAL FUND

As shown in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance on Exhibit 2, the amount that was received through intergovernmental revenue in 2015 was 6.4 percent of the total revenue received, or \$277,442. The SPCC's major sources of revenue were contributions and charges for services, with \$2,700,000 and \$1,386,941 received in 2015, respectively.

SPCC has received several State of Minnesota SIM (State Innovation Model) grants and also contributions under a long-term agreement with a private (non-profit) entity as it transitions to a self-sustaining business model.

## GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of 2015, the original revenue budget increased by \$163,533 and the expenditure budget increased by \$356,255. During 2015, SPCC was notified that they had received a State of Minnesota SIM grant to begin collaborating with private providers and other entities in the area of early detection and prevention of diabetes.

Actual revenue exceeded budgeted amounts by a total of \$605,313; this was due to a combination of a delay in the E-Health Grant implementation, which reduced budgeted intergovernmental revenue, and the receipt of the performance settlement for 2014, which had not been included in the 2015 charges for services budget.

Actual expenditures were greater than the budgeted expenditures by \$369,232 due to unbudgeted performance settlement payments to providers and counties and savings, as all phases of operations were evaluated and reduced as warranted.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

Southern Prairie Community Care's depreciable capital assets (net of accumulated depreciation) at December 31, 2015, totaled \$54,689. This investment in capital assets is mainly vehicles owned by SPCC. The total increase in the County's investment in capital assets, net of depreciation, for the current fiscal year was \$40,324.

### **Long-Term Debt**

At the end of the fiscal year 2015, Southern Prairie Community Care had no outstanding debt.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Southern Prairie Community Care adopted the 2016 budget based on continuing to implement the SIM grant awards and use the private contributions to expand the care coordination model to all 12 of its member counties.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of Southern Prairie Community Care's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Elizabeth Cinqueonce, Executive Director, 607 West Main Street, P. O. Box 513, Marshall, Minnesota 56258.

## **BASIC FINANCIAL STATEMENTS**

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**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

*EXHIBIT 1*

**GENERAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
DECEMBER 31, 2015**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b><u>Assets and Deferred Outflows of Resources</u></b>			
Assets			
Cash and pooled investments	\$ 1,457,503	\$ -	\$ 1,457,503
Investments	742,000	-	742,000
Due from other governments	206,122	-	206,122
Capital assets			
Depreciable - net	-	54,689	54,689
<b>Total Assets</b>	<b>\$ 2,405,625</b>	<b>\$ 54,689</b>	<b>\$ 2,460,314</b>
<b><u>Deferred Outflows of Resources</u></b>			
Deferred pension outflows	-	289,364	289,364
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 2,405,625</b>	<b>\$ 344,053</b>	<b>\$ 2,749,678</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u></b>			
Current liabilities			
Accounts payable	\$ 58,333	\$ -	\$ 58,333
Due to other governments	69,360	-	69,360
Compensated absences	-	21,415	21,415
Long-term liabilities			
Net pension liability	-	507,886	507,886
<b>Total Liabilities</b>	<b>\$ 127,693</b>	<b>\$ 529,301</b>	<b>\$ 656,994</b>
<b><u>Deferred Inflows of Resources</u></b>			
Deferred pension inflows	-	\$ 25,606	\$ 25,606
<b><u>Fund Balance/Net Position</u></b>			
Fund Balance			
Unassigned	2,277,932	\$ (2,277,932)	

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

**EXHIBIT 1  
(Continued)**

**GENERAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
DECEMBER 31, 2015**

	General Fund	Adjustments	Governmental Activities
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position (Continued)</u></b>			
Net Position			
Invested in capital assets		\$ 54,689	\$ 54,689
Unrestricted		2,012,389	2,012,389
<b>Total Net Position</b>		<b>\$ 2,067,078</b>	<b>\$ 2,067,078</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</b>	<b>\$ 2,405,625</b>	<b>\$ 344,053</b>	<b>\$ 2,749,678</b>
 <b>Reconciliation of the General Fund Balance to Net Position</b>			
<b>Fund Balance - General Fund</b>			<b>\$ 2,277,932</b>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.			54,689
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in the General Fund.			289,364
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the General Fund.			(25,606)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the General Fund.			
Compensated absences		(21,415)	
Net pension liability		(507,886)	(529,301)
<b>Net Position - Governmental Activities</b>			<b>\$ 2,067,078</b>

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

*EXHIBIT 2*

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b>Revenues</b>			
Intergovernmental	\$ 277,442	\$ -	\$ 277,442
Contributions	2,700,000	-	2,700,000
Charges for services	1,386,941	-	1,386,941
Investment earnings	1,234	-	1,234
Miscellaneous	229	-	229
<b>Total Revenues</b>	<b>\$ 4,365,846</b>	<b>\$ -</b>	<b>\$ 4,365,846</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
<b>Public Health</b>			
Health	3,989,650	63,323	4,052,973
<b>Net Change in Fund Balance/Net Position</b>	<b>\$ 376,196</b>	<b>\$ (63,323)</b>	<b>\$ 312,873</b>
<b>Fund Balance/Net Position - January 1, as restated (Note 1.E.)</b>	<b>1,901,736</b>	<b>(147,531)</b>	<b>1,754,205</b>
<b>Fund Balance/Net Position - December 31</b>	<b>\$ 2,277,932</b>	<b>\$ (210,854)</b>	<b>\$ 2,067,078</b>
<b>Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities of Governmental Activities</b>			
<b>Net Change in Fund Balance</b>			<b>\$ 376,196</b>
<p>Governmental funds report capital outlays 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.</p>			
Capital outlay expenditures		\$ 52,185	
Current year depreciation expense		(11,861)	40,324
<p>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.</p>			
Change in compensated absences payable		(21,415)	
Change in net pension liability, as restated		(324,684)	
Change in deferred outflows of resources, as restated		268,058	
Change in deferred inflows of resources		(25,606)	(103,647)
<b>Change in Net Position of Governmental Activities</b>			<b>\$ 312,873</b>

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**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015**

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1. Summary of Significant Accounting Policies

Southern Prairie Community Care financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2015. 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 Southern Prairie Community Care are discussed below.

A. Financial Reporting Entity

Southern Prairie Health Purchasing Alliance (subsequently renamed Southern Prairie Community Care) was established in 2013 by 12 counties (Member Counties) pursuant to the powers granted by Minn. Stat. § 471.59.

The purpose of the joint powers entity is to plan, form, operate, and govern a rural care delivery system to improve health and quality of life of the citizens of Member Counties who participate in government health care programs through improved coordination, management, and delivery of health care and social services through partnerships between Member Counties and local providers.

Southern Prairie Community Care is governed by a 12-member Governing Board consisting of one individual from each Member County selected by the County Board of that county.

Des Moines Valley Health and Human Services serves as fiscal agent and reports the transactions of Southern Prairie Community Care as an agency fund on its financial statements.

B. Basic Financial Statements

Basic financial statements include information on Southern Prairie Community Care's activities as a whole and information on the individual fund of Southern Prairie Community Care. These separate presentations are reported in different columns on Exhibits 1 and 2. Each of these exhibits starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of Southern Prairie Community Care as a whole.

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Southern Prairie Community Care considers all revenues as available if collected within 60 days after the end of the current period. Charges for services and interest are considered to be 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, if any, are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is Southern Prairie Community Care's policy to use restricted resources first and then unrestricted resources as needed.

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

1. Cash and Investments

Southern Prairie Community Care's available cash balances are pooled and invested by Des Moines Valley Health and Human Services in accordance with Minnesota statutes.

2. Receivables

Southern Prairie Community Care did not have any receivables not expected to be collected within the year. No allowance for uncollectible accounts have been included because such amounts are not expected to be material.

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

3. Capital Assets

Capital assets, which include machinery, furniture, and equipment, are reported in the government-wide financial statements. Capital assets are defined by Southern Prairie Community Care as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Capital assets of Southern Prairie Community Care are depreciated using the straight-line method. Machinery, furniture, and equipment are being depreciated over three to ten years.

4. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual leave balances. The liability has been calculated using accrual balances at year-end multiplied by employee wage rate. Accruals must be used or forfeited by the employee anniversary dates in the following calendar year. Accordingly, the statement of net position reports only a current portion of compensated absences. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the General Fund only if they have matured, for example, as a result of employee resignations and retirements.

5. Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column on the Statement of Net Position.

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

6. 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 (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.

7. 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. Currently, Southern Prairie Community Care has one item, deferred pension outflows, that qualifies for reporting in this category. This outflow arises only under the full accrual basis of accounting and consists of pension plan contributions paid subsequent to the measurement date, the difference between projected and actual earnings on pension plan investments, and also pension plan changes in proportionate share and, accordingly, is 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. Currently, Southern Prairie Community Care has one item, deferred pension inflows, that qualifies for reporting in this category. This inflow arises only under the full accrual basis of accounting and consists of the differences between expected and actual pension plan economic experience and, accordingly, is reported only in the statement of net position.



**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

8. Classification of Net Position

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

Investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation.

Restricted net position - the amount of net position for which external restrictions have been imposed 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 is not included in the net investment in capital assets or restricted components.

9. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which Southern Prairie Community Care is bound to observe constraints imposed upon the use of the resources in the General Fund. 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 in which constraints have been placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

9. Classification of Fund Balances (Continued)

Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Southern Prairie Community Care 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 Southern Prairie Community Care intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Southern Prairie Community Care Board.

Unassigned - the residual classification for the General Fund; it includes all spendable amounts not contained in the other fund balance classifications.

Southern Prairie Community Care 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.

10. Use of Estimates

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

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

E. Change in Accounting Principles

During the year ended December 31, 2015, Southern Prairie Community Care adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statement No. 68*, modifies the measure of payroll that is presented in the required supplementary information schedules.

GASB Statements 68 and 71 require Southern Prairie Community Care to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record Southern Prairie Community Care's January 1, 2015, net pension liability of (\$183,202) and related deferred outflows of resources of \$21,306.

	Governmental Activities
Net Position, January 1, 2015, as previously reported	\$ 1,916,101
Change in accounting principles	(161,896)
Net Position, January 1, 2015, as restated	\$ 1,754,205

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

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2. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits

Cash transactions are administered by the Des Moines Valley Health and Human Services' Director of Business Management who is, according to Minn. Stat. §§ 118A.02 and 118A.04, authorized to deposit cash in financial institutions designated by the Southern Prairie Community Care Board.

Investments are reported at their fair value at December 31, 2015, based on market prices. The types of investments available to Southern Prairie Community Care are authorized by Minn. Stat. §§ 118A.04 and 118A.05. Minnesota Statute § 118A.03 requires that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest 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, 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 that is not owned or controlled by the financial institution furnishing the collateral.

Custodial credit risk for deposits is the risk that, in the event of a bank failure, Southern Prairie Community Care's deposits may not be returned. Southern Prairie Community Care's policy is to obtain collateral or bond for all uninsured amounts on deposit, necessary documentation to show compliance with state law, and a perfected security interest under federal law.

As of December 31, 2015, Southern Prairie Community Care's deposits were not entirely covered by federal depository insurance or by pledged collateral. As of December 31, 2015, Southern Prairie Community Care's deposits were undercollateralized by \$268,400.

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

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2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

b. Investments

Southern Prairie Community Care may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

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

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. Southern Prairie Community Care 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 and to avoid the need to sell securities in the open market prior to maturity.

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

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2. Detailed Notes

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Southern Prairie Community Care only invests in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. Southern Prairie Community Care's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments to hold them only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage are available. Securities purchased that exceed available SIPC coverage shall be transferred to Southern Prairie Community Care's custodian. As of December 31 2015, Southern Prairie Community Care's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by Southern Prairie Community Care's investment in a single issuer. It is Southern Prairie Community Care's policy to diversify the investment portfolio to minimize the risk of potential loss from any one type of security or issuer.

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

The following table presents Southern Prairie Community Care's deposit and investment balances at December 31, 2015, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Cash and pooled investments					
Negotiable certificates of deposit					
Bank of Baroda, NY	N/A	N/A	>5%	01/13/2016	\$ 247,000
Santander Bank, NA	N/A	N/A	>5%	10/07/2016	247,000
EverBank, FL	N/A	N/A	>5%	10/14/2016	248,000
Total negotiable certificates of deposit					\$ 742,000
Checking					\$ 963,269
Savings					234
Certificates of deposit					494,000
Total cash and pooled investments					\$ 1,457,503
Total Cash and Investments					\$ 2,199,503

N/A - Not Applicable

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

2. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Machinery, furniture, and equipment	\$ 15,961	\$ 52,185	\$ -	\$ 68,146
Less: accumulated depreciation for				
Machinery, furniture, and equipment	1,596	11,861	-	13,457
Total Capital Assets, Net	\$ 14,365	\$ 40,324	\$ -	\$ 54,689

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

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2. Detailed Notes

A. Assets

2. Capital Assets (Continued)

Depreciation expense of \$11,861 was charged to the health function/program for the year ended December 31, 2015.

B. Liabilities and Deferred Inflows of Resources

1. Operating Leases

Southern Prairie Community Care has entered into operating leases for office space at Kandiyohi County and Appleton Area Health Services effective through December 31, 2016.

The future minimum lease payments as of December 31, 2015, were as follows:

Year Ended December 31	Amount
2016	\$ 4,891

2. Compensated Absences

Changes in compensated absences for the year ended December 31, 2015, were:

Payable at January 1	\$ -
Additions	68,433
Deductions	(47,018)
Payable at December 31	\$ 21,415

The entire amount is due within one year.



**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

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3. Pension Plan

Defined Benefit Pension Plan

A. Plan Description

All full-time and certain part-time employees of Southern Prairie Community Care are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

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 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 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 1.0 percent.

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.

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

---

3. Pension Plan

Defined Benefit Pension Plan

B. Benefits Provided (Continued)

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For General Employees Retirement Fund members hired prior to July 1, 1989, 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. Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015.

In 2015, Southern Prairie Community Care was required to contribute the following percentages of annual covered salary:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.50

The Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014.

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

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3. Pension Plan

Defined Benefit Pension Plan

C. Contributions (Continued)

Southern Prairie Community Care’s contributions for the General Employees Retirement Fund for the year ended December 31, 2015, were \$54,728. The contributions are equal to the contractually required contributions as set by state statute.

D. Pension Costs

At December 31, 2015, Southern Prairie Community Care reported a liability of \$507,886 for its proportionate share of the General Employees Retirement Fund’s net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Southern Prairie Community Care’s proportion of the net pension liability was based on Southern Prairie Community Care’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2015, Southern Prairie Community Care’s proportion was 0.0098 percent. It was 0.0039 percent measured as of June 30, 2014. Southern Prairie Community Care recognized pension expense of \$136,988 for its proportionate share of the General Employees Retirement Fund’s pension expense.

Southern Prairie Community Care reported its proportionate share of the General Employees Retirement Fund’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	\$ -	\$ 25,606
Difference between projected and actual investment earnings	48,079	-
Changes in proportion	207,864	-
Contributions paid to PERA subsequent to the measurement date	33,421	-
Total	\$ 289,364	\$ 25,606

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

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3. Pension Plan

Defined Benefit Pension Plan

D. Pension Costs (Continued)

A total of \$33,421 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ 72,772
2017	72,772
2018	72,772
2019	12,021

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. The cost of living benefit increases for retirees was assumed to be 1.0 percent effective every January 1 through 2035, and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

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3. Pension Plan

Defined Benefit Pension Plan

E. Actuarial Assumptions (Continued)

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 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 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	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. 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, each of the pension plan's fiduciary net position 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.

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

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3. Pension Plan

Defined Benefit Pension Plan (Continued)

G. Pension Liability Sensitivity

The following presents Southern Prairie Community Care’s proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what Southern Prairie Community Care’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 798,579	\$ 507,886	\$ 267,820

H. 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](http://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.

4. Risk Management

Southern Prairie Community Care is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. Southern Prairie Community Care has entered into a joint powers agreement with certain Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). Southern Prairie Community Care is a member of both the MCIT Workers’ Compensation and Property and Casualty Divisions.

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 \$490,000 per claim in 2015 and \$500,000 per claim in 2016. Should the MCIT Workers’ Compensation Division liabilities exceed assets, MCIT may assess Southern Prairie Community Care in a method and amount to be determined by MCIT.

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

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4. Risk Management (Continued)

The Property and Casualty Division of MCIT is self-sustaining, and Southern Prairie Community Care 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 Southern Prairie Community Care in a method and amount to be determined by MCIT.

Southern Prairie Community Care has not significantly reduced insurance coverage in the past year and has not had settlements in excess of insurance coverage in the past year.

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the State of Minnesota. 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 Southern Prairie Community Care expects such amounts, if any, to be immaterial.

B. Claims and Litigation

Southern Prairie Community Care, in connection with the normal conduct of its affairs, is involved in various claims, judgements, and litigation. Southern Prairie Community Care's attorney estimates that the potential claims against the entity resulting from litigation not covered by insurance would not materially affect the financial statements of Southern Prairie Community Care.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

*EXHIBIT A-1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 897,000	\$ 1,060,533	\$ 277,442	\$ (783,091)
Contributions	2,700,000	2,700,000	2,700,000	-
Charges for services	-	-	1,386,941	1,386,941
Investment earnings	-	-	1,234	1,234
Miscellaneous	-	-	229	229
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total Revenues</b>	<b>\$ 3,597,000</b>	<b>\$ 3,760,533</b>	<b>\$ 4,365,846</b>	<b>\$ 605,313</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Public health</b>				
Health	3,264,163	3,620,418	3,989,650	(369,232)
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Net Change in Fund Balance</b>	<b>\$ 332,837</b>	<b>\$ 140,115</b>	<b>\$ 376,196</b>	<b>\$ 236,081</b>
<b>Fund Balance - January 1</b>	<b><u>1,901,736</u></b>	<b><u>1,901,736</u></b>	<b><u>1,901,736</u></b>	<b><u>-</u></b>
<b>Fund Balance - December 31</b>	<b><u><u>\$ 2,234,573</u></u></b>	<b><u><u>\$ 2,041,851</u></u></b>	<b><u><u>\$ 2,277,932</u></u></b>	<b><u><u>\$ 236,081</u></u></b>

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

*EXHIBIT A-2*

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PERA GENERAL EMPLOYEES RETIREMENT FUND  
DECEMBER 31, 2015**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0098%	\$ 507,886	\$ 568,172	89.39%	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.

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

*EXHIBIT A-3*

**SCHEDULE OF CONTRIBUTIONS  
PERA GENERAL EMPLOYEES RETIREMENT FUND  
DECEMBER 31, 2015**

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)
2015	\$ 54,728	\$ 54,728	\$ -	\$ 729,698	7.50%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. Southern Prairie Community Care's year-end is December 31.

**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at year-end.

The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. The budgets may be amended or modified at any time by the Southern Prairie Community Care Board.

During the year, the Board amended the revenue and expenditure budgets.

2. Excess of Expenditures Over Budget

The General Fund had expenditures in excess of final budget for the year ended December 31, 2015:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 3,989,650	\$ 3,620,418	\$ 369,232

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**SUPPLEMENTARY INFORMATION**

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**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSHALL, MINNESOTA**

*EXHIBIT B-1*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>2015</u>
<b>Payments</b>	
<b>Local</b>	
Local contributions	\$ 3,515
<b>Grants</b>	
<b>Federal</b>	
Department of Health and Human Services	<u>273,927</u>
 <b>Total Intergovernmental Revenue</b>	 <u><u>\$ 277,442</u></u>

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**SOUTHERN PRAIRIE COMMUNITY CARE  
MARSAHLL, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**I. INTERNAL CONTROL OVER FINANCIAL REPORTING**

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2014-001

Audit Adjustment

**Criteria:** A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** During our audit, we proposed a material adjustment which resulted in significant changes to Southern Prairie Community Care's financial statements. The adjustment was reviewed and approved by the appropriate staff and is reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of Southern Prairie Community Care's internal controls.

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

**Effect:** An adjustment of \$198,279 was made in the General Fund to record additional revenue that was for the 2015 fiscal year.

**Cause:** A February 2016 receipt was entered as 2016 revenue when it was actually revenue related to the fourth quarter of 2015 and should have been included in Southern Prairie Community Care's 2015 year-end accruals.

**Recommendation:** We recommend that Southern Prairie Community Care review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting to ensure its annual financial statements are reported in accordance with generally accepted accounting principles.

Client's Response:

*Southern Prairie Community Care will continue to make changes to the internal controls to meet the Office of the State Auditor's recommendation.*

Finding 2014-002

Accounting Policies and Procedures Manual

**Criteria:** Management is responsible for developing and monitoring its internal controls. An essential element of monitoring controls includes documenting the governmental entity's accounting policies and procedures. Significant internal controls to be documented would include areas such as receipts, disbursements, payroll, capital assets, fund balance, journal entries, and budget adjustments.

**Condition:** Southern Prairie Community Care does not have a current and comprehensive accounting policies and procedures manual, including documentation of significant internal controls of its accounting system.

**Context:** Documentation and monitoring of internal controls is necessary to determine controls are in place and operating effectively. An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in Southern Prairie Community Care's internal control system and can help to avoid circumvention of Southern Prairie Community Care's policies.

**Effect:** As a result of this condition, Southern Prairie Community Care's practices may not be followed as intended by management, and employees may not understand the purpose of internal controls.

**Cause:** Southern Prairie Community Care's management is currently working on an accounting policies and procedures manual.

**Recommendation:** We recommend that Southern Prairie Community Care continue its efforts to develop a comprehensive accounting policies and procedures manual including documentation for the internal control systems over receipts, disbursements, payroll, capital assets, fund balance, journal entries, and budget adjustments. The manual should be prepared by the appropriate levels of management and be approved by Southern Prairie Community Care's Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which level of staff is to perform the procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support controls.

Client's Response:

*Southern Prairie Community Care adopted fiscal policies for their Policies and Procedures manual on May 27, 2016.*

## II. OTHER FINDINGS AND RECOMMENDATIONS

### MINNESOTA LEGAL COMPLIANCE

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2014-003

#### Insufficient Collateral

**Criteria:** Governmental entities are required by Minn. Stat. § 118A.03, subd. 3, to obtain collateral to secure deposits to the extent that funds on deposit exceed available federal deposit insurance at the close of the financial institution's banking day. The market value of the collateral should be at least ten percent more than the uninsured and unbonded amount on deposit.

**Condition:** At December 31, 2015, Southern Prairie Community Care had deposits at State Bank of Taunton that were not adequately covered by collateral.

**Context:** Southern Prairie Community Care's deposits at State Bank of Taunton had insufficient collateral coverage by \$268,400 as of December 31, 2015.

**Effect:** When a governmental entity has insufficient collateral with a bank, the entity may not receive all deposits in the event of bank default.

**Cause:** Staff informed us that this was related to a timing issue, and sufficient collateral was obtained in March of the following year.

**Recommendation:** We recommend Southern Prairie Community Care monitor all deposits to determine there is adequate collateral pledged to secure deposits in accordance with Minn. Stat. § 118A.03.

Client's Response:

*Southern Prairie Community Care obtained sufficient collateral coverage for the deposits at the State Bank of Taunton in March of 2016.*

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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

Governing Board  
Southern Prairie Community Care  
Marshall, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the financial statements of the governmental activities and the General Fund of Southern Prairie Community Care as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Southern Prairie Community Care's basic financial statements, and have issued our report thereon dated December 9, 2016.

#### **Internal Control Over Financial Reporting**

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

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

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

material misstatement of Southern Prairie Community Care's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency listed in the Schedule of Findings and Recommendations as item 2014-001 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in Southern Prairie Community Care's internal control, identified as item 2014-002 in the Schedule of Findings and Recommendations, to be a significant deficiency.

### **Other Matters**

Southern Prairie Community Care's written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit Southern Prairie Community Care's responses and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Governing Board, management, and others within Southern Prairie Community Care, and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 9, 2016



REBECCA OTTO  
STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Governing Board  
Southern Prairie Community Care  
Marshall, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of the governmental activities and the General Fund of Southern Prairie Community Care as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Southern Prairie Community Care's basic financial statements and have issued our report thereon dated December 9, 2016.

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: 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 Southern Prairie Community Care does not administer any tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Southern Prairie Community Care 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 Recommendations as item 2014-003. 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 Southern Prairie Community Care's noncompliance with the above referenced provisions.

Southern Prairie Community Care's written response to the legal compliance finding identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit Southern Prairie Community Care's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Governing Board and management of Southern Prairie Community Care and the State Auditor and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 9, 2016