

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

YEAR ENDED DECEMBER 31, 2014

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 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, 2014



**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
2014

Name	Representing	Position
Board Members		
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	
Bob Jarchow	Rock County	
Gary Hendrickx	Swift County	Vice Chair
John Berends	Yellow Medicine County	
Management Team		
Mary Fischer		Executive Director
Jeffrey Lopez		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, 2014, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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, 2014, and the respective changes in financial position and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the General Fund Budgetary Comparison Schedule be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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

December 23, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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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, 2014**

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, 2014. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

In 2014, the assets of Southern Prairie Community Care exceeded its liabilities by \$1,916,101, of which \$14,365 is the investment in capital assets (Exhibit 1), leaving unrestricted net position of \$1,901,736.

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. Southern Prairie Community Care's basic financial statements consist of statements that combine government-wide financial statements and fund financial statements, budgetary comparison 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.

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 the operations and the basic services provided. 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. We reconcile the relationship (or differences) between governmental funds and governmental activities (reported in the third column) in the center column of each statement.

The third column in each of the first two statements presents the governmental activities' Statement of Net Position and the Statement of Activities, which provide information about the activities of Southern Prairie Community Care as a whole and present a longer-term view of the finances. These columns include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Over time, increases or decreases in net position are one indicator of whether its financial health is improving or deteriorating.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information is provided as supplementary information regarding Southern Prairie Community Care’s intergovernmental revenues.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of financial position. Southern Prairie Community Care’s assets exceeded liabilities by \$1,916,101 at the close of 2014. The largest portion of SPCC’s net position reflects current assets. Comparative information will be provided in future years.

Net Position

Assets	
Current and other assets	\$ 2,011,350
Capital assets	<u>14,365</u>
Total Assets	<u>\$ 2,025,715</u>
Liabilities	
Other liabilities	<u>\$ 109,614</u>
Net Position	
Investment in capital assets	\$ 14,365
Unrestricted	<u>1,901,736</u>
Total Net Position	<u><u>\$ 1,916,101</u></u>

Governmental Activities

Southern Prairie Community Care’s activities increased net position during 2014 by \$1,856,408. Comparative information will be provided in future years.

Changes in Net Position

Revenues	
Intergovernmental	\$ 223,800
Contributions	3,100,000
Miscellaneous	<u>16,884</u>
Total Revenues	\$ 3,340,684
Expenditures	
Public health	<u>1,484,276</u>
Increase (Decrease) in Net Position	\$ 1,856,408
Net Position - January 1	<u>59,693</u>
Net Position - December 31	<u><u>\$ 1,916,101</u></u>

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 2014 was 6.7 percent of the total revenue received, or \$223,800. The SPCC's major source of revenue was contributions, with \$3,100,000 received in 2014, or 92.8 percent of the total revenue received.

For 2015 and going forward, SPCC does not expect to receive any intergovernmental revenue, as the services that SPCC provides no longer qualify for Medical Assistance (MA) reimbursement. Instead, 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

Over the course of the year, the original to final budget totals stayed the same. A formal revenue budget was not approved in 2014. During 2014, 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. This and expansion of other SPCC services has required management and the Board of SPCC to be aware of and communicate the opportunities and changes that affect the SPCC operating budget.

Actual expenditures were less than the budgeted expenditures by \$333,359. Personnel expenditures were less than budgeted in 2014, due to the delay in hiring new staff.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Southern Prairie Community Care's depreciable capital assets (net of accumulated depreciation) at December 31, 2014, totaled \$14,365. This net investment in capital assets is a vehicle owned by SPCC.

Long-Term Debt

At the end of the fiscal year 2014, Southern Prairie Community Care had no outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Southern Prairie Community Care adopted the 2015 budget based on continuing to implement the SIM grant awards and use the private contributions to expand the care co-ordination 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 Mary Fischer, 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, 2014**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Current assets			
Cash	\$ 1,791,350	\$ -	\$ 1,791,350
Accounts receivable	220,000	-	220,000
Capital assets			
Depreciable - net	-	14,365	14,365
Total Assets	\$ 2,011,350	\$ 14,365	\$ 2,025,715
<u>Liabilities and Fund Balance/Net Position</u>			
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 24,614	\$ -	\$ 24,614
Unearned revenue	85,000	-	85,000
Total Liabilities	\$ 109,614	\$ -	\$ 109,614
<u>Fund Balance/Net Position</u>			
Fund Balance			
Unassigned	1,901,736	\$ (1,901,736)	
Net Position			
Invested in capital assets		\$ 14,365	\$ 14,365
Unrestricted		1,901,736	1,901,736
Total Net Position		\$ 1,916,101	\$ 1,916,101
Total Liabilities and Fund Balance/Net Position	\$ 2,011,350	\$ 14,365	\$ 2,025,715
Reconciliation of the General Fund Balance to Net Position			
Fund Balance - General Fund			\$ 1,901,736
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.			14,365
Net Position - Governmental Activities			\$ 1,916,101

**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, 2014**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 223,800	\$ -	\$ 223,800
Contributions	3,100,000	-	3,100,000
Miscellaneous	16,884	-	16,884
Total Revenues	\$ 3,340,684	\$ -	\$ 3,340,684
Expenditures/Expenses			
Current			
Public Health			
Health	1,498,641	(14,365)	1,484,276
Net Change in Fund Balance/Net Position	\$ 1,842,043	\$ 14,365	\$ 1,856,408
Fund Balance/Net Position - January 1	59,693	-	59,693
Fund Balance/Net Position - December 31	\$ 1,901,736	\$ 14,365	\$ 1,916,101
 Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities of Governmental Activities			
Net Change in Fund Balance			\$ 1,842,043
 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.			
Capital outlay expenditures		\$ 15,961	
Current year depreciation expense		(1,596)	14,365
Change in Net Position of Governmental Activities			\$ 1,856,408

**SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA**

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

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, 2014. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by 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**

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 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 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

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**

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. Unearned Revenue

The General Fund and the government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

5. Deferred Outflows/Inflows of Resources

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

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

**SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. 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.

7. 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 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 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**

1. Summary of Significant Accounting Policies

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

7. Classification of Fund Balances (Continued)

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or 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 (ordinance or 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; 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.

8. 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**

1. Summary of Significant Accounting Policies (Continued)

E. Future Change in Accounting Standards

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

2. Detailed Notes

A. Assets

1. Deposits and Investments

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.

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

**SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA**

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

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 deposits may not be returned to it. Southern Prairie Community Care does not have a deposit policy for custodial credit risk and follows Minnesota statutes for deposits.

As of December 31, 2014, Southern Prairie Community Care's deposits were not entirely covered by federal depository insurance or by pledged collateral. As of December 31, 2014, Southern Prairie Community Care's deposits were uncollateralized by \$1,557,931.

2. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Machinery, furniture, and equipment	\$ -	\$ 15,961	\$ -	\$ 15,961
Less: accumulated depreciation for Machinery, furniture, and equipment	<u>-</u>	<u>1,596</u>	<u>-</u>	<u>1,596</u>
Total Capital Assets, Net	<u>\$ -</u>	<u>\$ 14,365</u>	<u>\$ -</u>	<u>\$ 14,365</u>

Depreciation expense of \$1,596 was charged to the health function/program for the year ended December 31, 2014.

**SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA**

2. Detailed Notes (Continued)

B. Liabilities

1. Unearned Revenue

The unearned revenue for the year ended December 31, 2014, consisted of \$85,000 in contributions.

2. Operating Leases

Southern Prairie Community Care has entered into an operating lease for office space at Kandiyohi County effective through December 31, 2016.

The future minimum lease payments as of December 31, 2014, were as follows:

<u>Year Ended December 31</u>	<u>Amount</u>
2015	\$ 2,739
2016	<u>2,191</u>
Total Lease Payments	<u>\$ 4,930</u>

3. 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 \$480,000 per claim in 2014 and \$490,000 per claim in 2015. 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**

3. 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.

4. Pension Plans

A. Plan Description

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

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

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

**SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA**

4. Pension Plans

A. Plan Description (Continued)

For General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. Southern Prairie Community Care makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014.

In 2014, Southern Prairie Community Care is required to contribute the following percentages of annual covered payroll:

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

**SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA**

4. Pension Plans

B. Funding Policy (Continued)

Southern Prairie Community Care's contributions for the years ending December 31, 2014 and 2013, for the General Employees Retirement Fund were:

<u>2014</u>	<u>2013</u>
\$ 20,954	\$ 5,963

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

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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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ -	\$ -	\$ 223,800	\$ 223,800
Contributions	-	-	3,100,000	3,100,000
Miscellaneous	-	-	16,884	16,884
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	\$ -	\$ -	\$ 3,340,684	\$ 3,340,684
Expenditures				
Current				
Public health				
Health	1,832,000	1,832,000	1,498,641	333,359
	<hr/>	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance	\$ (1,832,000)	\$ (1,832,000)	\$ 1,842,043	\$ 3,674,043
Fund Balance - January 1	59,693	59,693	59,693	-
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance - December 31	\$ (1,772,307)	\$ (1,772,307)	\$ 1,901,736	\$ 3,674,043
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**SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA**

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

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.

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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, 2014**

Grants

Federal

Health and Human Services

\$ 223,800

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**SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA**

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

I. INTERNAL CONTROL OVER FINANCIAL REPORTING

ITEMS ARISING THIS YEAR

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 the governmental entity'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 the governmental entity'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 \$220,000 was made in the General Fund to record additional revenue that was for the 2014 fiscal year.

Cause: A January 2015 receipt was entered as 2015 revenue when it was actually revenue related to December 2014 and should have been included in the governmental entity's 2014 year-end accruals.

Recommendation: We recommend that the governmental entity review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting to ensure the governmental entity's 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 the governmental entity's internal control system and can help to avoid circumvention of the governmental entity's policies.

Effect: As a result of this condition, the governmental entity'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 is a newly organized entity. Management is currently working on an accounting policies and procedures manual.

Recommendation: We recommend that the governmental entity 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 the governmental entity'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 has begun to adopt fiscal policies for their Policies and Procedures manual.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

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, 2014, the governmental entity had deposits at Bremer Bank that were not adequately covered by collateral.

Context: Southern Prairie Community Care's deposits at Bremer Bank had insufficient collateral coverage by \$1,557,931 as of December 31, 2014.

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 when the Bremer Bank account was originally opened, it was set-up as an account for a non-profit organization, which have different statute requirements.

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 is in the process of opening a "cash sweep" account which will keep their bank balance within federal deposit insurance limits.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*

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

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

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

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



REBECCA OTTO
STATE AUDITOR

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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, 2014, and the related notes to the financial statements, which collectively comprise the Southern Prairie Community Care's basic financial statements, and have issued our report thereon dated December 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to Southern Prairie Community Care, and it is reported for that purpose.

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.

Purpose of This Report

This communication is intended solely for the information and use of management, Governing Board, 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

December 23, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE 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, 2014, 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 23, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of Southern Prairie Community Care's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for the provisions for public indebtedness because Southern Prairie Community Care does not have debt.

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 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 those charged with governance 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

December 23, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR